



**VIOLETTA SHISHKINA OPTIMIZAÇÃO DA EFICIÊNCIA INTERNA ATRAVÉS
DE ESTRATÉGIAS ORÇAMENTAIS**

**OPTIMIZATION OF INTERNAL EFFICIENCY
THROUGH BUDGETING STRATEGIES**



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Thesis presented to the University of Aveiro to fulfil the formalities essential to obtain the degree of European Master in Higher Education (Erasmus Mundus), done by the scientific supervision of the Dr. Rui Santiago, Professor Associado com Agregação of the Department of Ciências Sociais, Jurídicas e Políticas of the University of Aveiro

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estratégia, orçamento, universidade, Rússia, governamental, financiamento

resumo

O propósito deste estudo foi investigar a aplicação de estratégias ou políticas orçamentais em Universidades de países com economias em desenvolvimento no contexto de um Projecto de Prioridade Nacional (uma tentativa governamental que visa estimular o Ensino Superior na Rússia), no sentido de tentar perceber de que maneira as referidas estratégias contribuem para um aumento da eficiência interna das Universidades. A filosofia de adaptação à economia de Mercado deverá resultar na modernização do Ensino superior russo e na integração completa da Rússia na comunidade Europeia do Ensino superior. Todavia, a confluência de uma série de factores políticos, sociais, económicos e académicos influencia a implementação dos princípios de desenvolvimento estratégico. Neste estudo, foi seleccionada uma única Universidade de província como um estudo de caso, a qual foi examinada pelo prisma das suas estratégias de orçamento que, posteriormente, se estenderam ao contexto mais alargado da administração, da contabilidade, da economia e da formação e implementação da estratégia governamental. O estudo de caso ilustra que as Instituições de Ensino superior podem integrar e implementar com sucesso os princípios de orçamento estratégico e que as estratégias principais usadas na preparação e na implementação do orçamento não são introduzidas nem apenas a partir de cima nem só a partir de baixo, constituindo antes uma mistura de ambos os modelos. Para além disso, verificou-se que as reformas envolvem questões de consciência, de apoio do governo e de financiamento e que a implicação principal das estratégias de orçamento universitário se verifica ao nível do aumento da competitividade entre as Instituições de Ensino superior na Rússia e a Comunidade Europeia, através do incentivo da sua eficiência interna. Por último, oferece-se ainda uma estratégia possível de desenvolvimento do Ensino superior na Rússia.

keywords

strategy, budget, university, Russia, governance, financing.

abstract

The purpose of the present study was to investigate the application of budgeting strategies of a University in emerging economy within the framework of a National Priority Project (a governmental attempt to boost Higher Education in Russia) in order to see how they add up to a possible increase in internal efficiency. The philosophy of adaptation to the market economy is supposed to result in the modernization of Russian Higher Education and Russia's complete integration into the European Higher Education community. A confluence of political, social, economic, and academic factors, however, influences the implementation of the principles of strategic development. In the present study, a single aspiring provincial University was chosen as a case study, examined through the prism of its budgeting strategies, and then extrapolated into a wider context of management, accounting, economics and governance-related strategy formation and implementation. The case study suggests that Higher Education Institutions are able to integrate and implement the principles of strategic budgeting successfully; that the main strategies used in preparation and implementation of the budget are neither top-down nor bottom-up in nature, but a mixture of both models; that challenges facing reform involve issues of awareness, government support, and funding; and that the major implication of the University budgeting is that it will increase the competitiveness of Russian Higher Education Institutions with the European community by boosting their internal efficiency. One suggests possible strategy of Higher Education development in Russia.

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ACRONYMS AND ABBREVIATIONS

ca. – approximately (circa)

etc. – and others (et cetera)

HE – Higher Education

HEI – Higher Education Institution

i.e. – that is (id est)

IKSUR – Immanuel Kant State University of Russia

OECD – Organization for Economic Co-Operation and Development

R&D – research and development

GNP- Gross National Product

GDP- Gross Domestic Product

Introduction

1.1. Background of the study

In the post-soviet Russia, drastic transformations took place within its economic and social system. The main rationale for the transformation was to achieve the transition from planned economy to a market-oriented economy that maintained regulatory government functions. The Soviet educational system characterized by its free access of students' population and high quality of education, had also been affected by those transformations. However, the main challenge it faces now is the adaptation implied by the rapidly changing economic environment following the collapse of the USSR. There is little systematic way to address the reconversion of the Soviet University into the market-oriented social transformation that has marked the early 1990s. The Soviet five years' state development plan was a basic attribute of the Soviet education system. Although disputable for the planning of the economy, many were ready to defend it in the scientific domain due to excellent results in those fields (notably in mathematics, physics, engineering, space, military and aircraft industries). A disintegration of the USSR has reduced to obsolescence the former institutional structure of the country, the University included. In this context, the former Soviet process of strategic planning both at the national level, and at the University level became inappropriate.

The de-composition of the existing structure that worked in the last decade has profound effect on the functioning of today's Universities. Although the transition to market economy has been successful, the economy of the country is still considered to be emerging¹. Due to the economic condition of the country, the effects on the University system are not negligible. It was the amount of virtual expenditures that was the basis for HEIs financing in Russia up till the 1990s, as the centralized financing was in place. This very situation per se did not require the introduction of a rational system of internal budgeting nor did it stimulate Universities to develop finance-wise. The uprising deficit, though, aggravated the problems, hence, the interest towards budgeting strategies as a primary means of internal management.

¹ A term coined in 1981 by Antoine W. Van Agtmael of the International Finance Corporation of the World Bank, an emerging, or developing, market economy (EME) is defined as an economy with low-to-middle per capita income. Such countries constitute approximately 80% of the global population, representing about 20% of the world's economies (Heikal, n.d.).

A University is an institution with a unique role of education, which rationality is not, in its usual sense, applicable to the decision making process that takes place in corporations or other institutions where profit is the standard of evaluation. At the University, this is not an important index². The University organizational structure is somewhat loose if one adopts a productive point of view. Despite the conservatism one finds in most academic cycles regarding the ability of the University to transform itself, the reality dictates that Universities embrace a strategic approach of their functioning. Most of the criticism of the role of the private sector in the University is voiced as the subordination of the University to private interests that ultimately do not care about the production of knowledge. It is often argued that it is useless to try to make a knowledge-producing and transmitting organization work as a company. But the argument is beyond the point, since the issue is not to make the University work as companies, but to rationalize its bureaucratic means for a better efficiency³. Since the University is a bureaucracy, and since the public is using its services, it makes a lot of sense to consider the outcomes of its management to better serve the needs of students and the society at large. But, I have to warn the reader that a blind copying of the strategy adopted by Western Universities is not going to work. We need to bear in mind that changes in system-level governance arrangements are not value neutral, as one set of assumptions concerning the role and function of HE is substituted with another one that values responsiveness, adaptability and competitiveness (Amaral, 2002).

The Russian system is constantly facing issue of under-funding; humans are insatiable by nature and no matter if the country belongs to a so called developed circle or to a developing one (emerging economies), the problems remain the same, it is the relative amount that changes: resources are always scarce. HEIs in developed countries face similar problems, especially when it comes to funding (Jongbloed, 2003). Because the USSR had not built enough schools to accommodate increasing enrolments, Russia inherited a system of overcrowded schools with an outdated infrastructure. Educational expenditure assignments in Russia are divided across the federal, regional and local budget lines. Until recently the federal government was responsible for almost all University expenditures (Craig et al., 1997).

² Unless it is a for-profit institution

³ Educational efficiency can be distinguished as internal efficiency and external efficiency. Internal efficiency relates educational outputs to educational inputs, while external efficiency relates educational outcomes to educational inputs.

Meanwhile, the private flow of funds into Russian state Universities has increased substantially. Anticipating privatization of University finance in the 1990s, the state in the mid-1980s began turning to indirect rather than direct allocation of state revenue⁴. Later, with the emergence of a market economy and private sector, extensive contract training brought more nongovernmental revenue to state Universities. The amended Law on Education of 1996 raised the cap on tuition-paying students in the most popular programs from 10 to 25 %. Overall, in the late 1990s every fifth student in the country was charged tuition while admission to state HEIs in Russia remained to be dual-track (Bain, 1998). Pressured to supplement state funds with revenue from private sources, Russian public HEIs on average generated 25 % of their operating revenue from additional sources, and by 1998 this amount ranged from 30 to 60 % (Chapman, 2002).

1.2. The significance of the study

The research of HE budgeting in Russia is rare, which gives me an opportunity to contribute to this underdeveloped field. Russian Universities are obviously in need of drastic changes, be it in connection with the Bologna Declaration or because of their outdated Soviet-based way of functioning. And the government seems to realize that it is time to put the priorities back where they belong: education is set as a national priority, an element of competition and rivalry between institutions is brought into the picture. This seems like a good timing for bringing in a managerial/organizational reform within the University. Of course, there is a good deal of evidence to show that administrative reforms can go wrong. They have always had a high failure rate, in both developed and developing countries. They may fail to produce the claimed benefits. They may even generate perverse effects that render the relevant administrative processes worse than they were previously. (Politt, Bouckaert, 2000).

According to Polidano (1999), it is important to take into account contingency factors that are both as capable of variation within the same country as they are across different countries. Yet those preoccupied with the transferability of management strategies to developing countries focus on national characteristics. Factors such as corruption or poor administrative capacity obviously do affect the performance of government; but localized contingencies are

⁴ Through research projects and limited training contracted by state enterprises.

much more important as determinants of the success or failure of individual reform initiatives. The tendency to draw generalized, once-and-for-all conclusions about the workability of public reforms in developing countries on the basis of nationwide traits is simply misplaced, Polidano (1999) concludes.

This thesis looks into one of the National Priority Projects of the Russian Federation. It is a program of the Russian government set out by the Russian President on September 5, 2005. It is aimed to develop social welfare in Russia by additional funding by the state of four selected projects focusing on public health, education, housing and agriculture.

The aim of this thesis is to analyze the budgeting strategies of a University that participates in the project implementation and propose ways of increasing its internal efficiency. I take the Immanuel Kant State University of Russia (IKSUR) as a case study in order to analyze its financing and budgeting. I seek to implement a more economic and financial approach, to see how budgeting strategies should be altered if necessary and what effects can be achieved if a more strategic development plan is put into action.

This thesis argues that significant increases in competitiveness and financial position can be made in a public University even in emerging economy. The main challenge of this argument comes from the structural origin of the alterations. In my case study, IKSUR is dealing with reform that incorporates features of the Soviet institutional administration. The implementation of strategic budgeting demands to review those institutional structures and the bureaucratic routine that goes with it. The issue is to adapt a self-contained academic structure to the reality of the world, based on the economic model which includes globalization, rapid change, high flux of information and resulting international competition for the academic staff.

1.3. The methodology

The methodology of the present thesis is categorized into several parts:

1. Collection of relevant data (secondary in nature) and formation of corpora for the purpose of qualitative and quantitative analyses. Data primarily consists of journal articles and official quarterly/annual reports of the University under analysis.
2. Provision of background information about the University, including an analysis of its economic, social and political contingencies.
3. Discussion and in-depth analysis of the University budgeting strategies within a defined time scale by means of a case-study⁵. It allows for some degree of generalization and testing of the hypotheses. The advantage of the case study is that it can test views directly in relation to phenomena as they unfold in practice: for “how” and “why” questions, a case study has a distinct advantage. While it is correct that summarizing case studies is often difficult, the problems with it, however, are due more often to the properties of the reality studied than to the case study as a research method. The question of subjectivism and bias toward verification applies to all methods, not just to the case study and other qualitative methods (Flyvbjerg, 2006). Moreover, it is not desirable to summarize and generalize case studies. Good studies should be read as narratives in their entirety (Flyvbjerg, 2006).

⁵ The case-study approach, according to the conventional view, cannot be of value when it comes to performing research that requires generalizing and can only be used when linked to general hypotheses. But views like this are based on common misunderstandings, like that general knowledge is more valuable than concrete (practical) knowledge; or that the case study contains a bias towards verification; or that it is very difficult to summarize and develop general propositions on the basis of a case study. But history shows that carefully chosen experiments and case studies were critical to the development of the physics of Newton, Einstein, Bohr, as well as Darwin, Marx and Freud. Formal generalization is largely overrated as the main source of scientific development. One can often generalize on the basis of a single case, and the case study may be central to scientific development via generalization as supplement or alternative to other methods. But formal generalization is overvalued as a source of scientific development, whereas the force of example is underestimated (Flyvbjerg, 2006). According to Flyvbjerg (2006), and others it is falsification, not verification that characterizes the case study. Moreover, the question of subjectivism and bias toward verification applies to all methods, not just to the case study and other qualitative methods (Flyvbjerg, 2006).

4. Discourse analysis of the selected corpora (including published interviews, official reports, and news reports) will be used in order to provide an insight into the problems⁶.

Reasons behind using the discourse analysis in the thesis include:

- Representing the discourse of others can function as a device whereby speakers can distance themselves from what is being expressed, positioning themselves in a Bakhtinian dialogic universe of voices other than their own (White, 2000). It can also be used to borrow the cited person's authority and erase the distance between what is said and what the author means.
- The corpora are bilingual, hence, language differences: i.e. words /word combinations like "budget" have different connotations in Russian and English.
- Lexical Choices: it is believed that this conscious choice making process can reveal the authors' ideology towards the specific event, which would be helpful to the discourse analysis which aims to examine how the authors position themselves.

Some limitations of discourse analysis are that its validity is open to considerable doubt, as what emerges from the analysis may be influenced by the views of the researcher.

5. Financial analysis of the University will be performed and a model of strategic development will be created.

The selected methodology is believed to be the most suited for the selected corpora and the limited amount of time. The main interlocutors, namely, the University, the state and the society engage in a discourse that is best analysed by the set of methods presented above. Nonetheless, this selection of methods has its limitations, as will be mentioned in the next sub-chapter.

⁶ Discourse analysis can be characterized as a way of approaching and thinking about a problem. In this sense, it is neither a qualitative nor a quantitative research method, but a manner of questioning the basic assumptions of research methods. It does not provide a tangible answer to problems based on scientific research, but it enables access to the ontological and epistemological assumptions behind a statement. Discourse analysis will, thus, not provide absolute answers to a specific problem, but enable me to understand the conditions behind a specific problem, the essence of that problem and its resolution (Frohman, 1992).

Discourse analysis procedures and structures include the compilation of an adequate set of data (paper-based interviews and journal articles); and the systematic analysis of entextualization devices linking texts to sources; levels of ideology-related implicit meaning.

1.4. The limitations of the approach

As with any study, this research project was framed by certain contextual boundaries, as well as by limitations of the selected research methods. First, given the multiplicity and ambiguity of financial approaches and objectives, it was not possible to explore the implementation of all related action lines in a Russian University within the framework of this study. Therefore, I chose to focus my research on the most evident implications of a strategic and financial approach for one University: the budget, its planning and implementation. These implications included changes in organizational structures, strategic planning and implementation, and the related issues of resistance to change, academic identity and values.

I do not differentiate between short and long run, due to the fact that the information obtained through the public sources does not provide all the data to say what inputs are fixed, what are variable. This concerns anything from the budget, the infrastructure, the amount of students (including the percentage of drop outs) and staff to national economic priorities. I aim to concentrate on the present and the visible future, trying to make riskless predictions. It is based on the idea that risks in the economy demand the University to redistribute its dependencies on external stakeholders.

Another possible pitfall of this study lies in the fact that it is challenging to estimate the value added by the budgeting strategies in a case where related reforms have only been started or are about to start. The same goes for identifying and measuring internal efficiency of a HEI. Bearing this in mind, I attempted to analyze the state of HE institutional settings at present, in order to present any subsequent institutional changes that the University is advised to implement.

Finally, Russia is too immense geographically and too diverse on a socio-economic scale to be able to generalize the qualitative findings from a single case study. To compensate for the lack of contextual generalizability, I tried to place the chosen case study in a wider context of financial policy formation, public debate, University publications, and published surveys. Also, the use of in-depth descriptors makes it possible for the specific case study findings to be transferred to other similar cases (Newman & Benz, 1998).

Literature Review

2.1. Universities as a special breed of public institutions

As has been mentioned earlier in the thesis (see Background of the study), the University is a bureaucracy, thus, it should be treated as a public institution when it comes to planning reforms. Boston (1996) identifies several ways in which public organizations differ from the private sector and highlights that reform tends to ignore these differences. Universities differ from other public and private institutions in numerous ways including:

- Degree of market exposure. This is in direct connection with how much the University depends on appropriations. Any Russian public University is highly dependent on the government but is looking for a way out by turning to business and industry;
- Coerciveness. This implies more centralization of objectives, and globalism of policies (rather than specificity). This is especially relevant for Russia, as the state is still a monopoly when it comes to education;
- Complexity of objectives⁷. Education, research and services to society are the most important objectives of the University and they often come in contradiction when it comes to how much time/money should be spent on educating versus researching;
- Incentive structure. This point is directly connected to teaching/research ratio, as getting published as a result of spending more hours on research may outweigh classroom hours for some academics and vice versa;
- Subject to public scrutiny. Universities are usually blamed for anything from a bad job (due to poor education) to a bad economic situation in the country (due to lack of research) to social instability (due to decreasing services to society), etc.

⁷ This brings up the issue of the levels of responsibility/governance and decision-making. Because Universities require specialized expertise, many of their decisions, and in particular some concerned with the definition of the basic elements of the mission (teaching and research), can only be made by individual professors. (Hölttä, 1997) Many important decisions, however, can be made neither by individual professors nor by central administrators, but require rather the participation of various actors with different interests and expertise. However, crises enhance the power of central administrators over the formation of strategies (Hölttä, 1997).

So, when one aims to employ a managerial approach to running a University, it means imminent substitution of governance norms associated with the public sector. But in this substitution we are bound to lose the grounds that a classical University is built on, such as:

- Participatory governance, with openness and consensus seeking;
- A flat organizational structure, an aversion to authority, especially that which is not associated with authority earned by academic competence;
- The sense that academics are misunderstood, especially by politicians and business people because of the special ethics, which accounts for the University clashes with business norms;
- Passionate concern for academic freedom, coupled with a tendency to view most threats to job security as threats to a much nobler principle. This is the base of idealism that makes the University fail, since job security is considered a right based on output that is hard to verify. Also, there exists a phenomenon of “the barbarian at the gate” where people with skills that are uncheckable, hidden behind “higher ethical values” and “nobler principles” deliver very little to society but make sure to close down the ways to change anything related to their salary (and the salary system based on public spending).

Theoretically, the following norms stand in contrast to the above ones, associated with traditional University management, whether the University is public or private non-profit:

- Managerial decisiveness, toughness, affinity for numbers and other "hard" data, where thought to be necessary (for profitability);
- Close monitoring of change based on the observation of facts. The use of methods for change implying restructuring, renewing, reengineering;
- Close attention to service (students, families, alumni, or potential donors) rather than taking the public for an anonymous tax payer.
- Close attention to image, advertising and public relations. Since one organization is responsible for the money of the people who invest in it, the University has to take care of its own image and maintain a careful relation with its stakeholders, whomever they are, contrary to the diffusion of responsibility of some state Universities, where the only responsibility is to make sure that the budget is re-conducted every year.

2.2. Higher Education in Russia under transformation⁸

It was the amount of virtual expenditures that was the basis for HEI financing in Russia up till the 1990s. This very situation per se did not require an introduction of a rational system of internal budgeting. The uprising deficit, though, aggravated the problems, hence, the interest towards budgeting strategies as a primary means of internal governance. In 2003, state expenditure on education in Russia was 3.8 percent of its GNP⁹. Spending in 2006 on tertiary education stands at approximately 70 billion rubles (one-quarter of one percent of GDP) (Wellhausen 2006). The ratio of budget expenditure to the GDP in Russia corresponds to the average indicators of countries with lower-middle and low incomes. However, in Russia only 11% of public expenditure is spent on education, which corresponds to the average indicator for prosperous countries. Thus, the total amount of budget expenditure in relation to the GDP in Russia corresponds to the level of poor countries, and the share of budget expenditure spent on education corresponds to the level of prosperous countries (Russian education in the context of world indicators, 2004). State Universities receive between 50 and 70 % of their budgets from the federal budget, 10 to 20 % through research, 5 to 10 % as grants and overhead, 10 to 20 % from tuition fees, and 10 to 20 % from different types of educational services (such as renting out facilities and additional services provided to the society) (Shamsutdinova, 2006).

In 2008 more than one million of people in Russia graduated from HEIs. Provided that the state spends 100,000 rubles per student for a 5 year degree program and only half of those graduates are lucky enough to get a job, the government is throwing away 5 billion roubles out of the budget. The financing is bound to change. Hence, Universities need to proactively seek for alternative ways of financing. With this in mind Vasiliev (2004) presents possible ways of adapting the University to the economic situation in the country:

- Introduction of the non-state means of financing. These include chargeable educational services, international cooperation within various programs and funds, renting out the University structures and premises, attraction of sponsors/donors;

⁸ Basic information about the system of HE in Russia can be found in Appendix 1.

⁹ UNESCO statistics

- Reduction of the University expenses by means of economy of scope and scale. Combination of research and education within a single HEI suggests the presence of efficiency gains from joint production: hence, the economies of scope (Canton, 2001).

Needless to say, that budgeting strategies may be of various kinds, and are dependent on the sole purpose of their introduction: be it strategic development or mere survival. The conditions of HE financing in the country are likely to change in the foreseeable future. The system of HE is in a crisis financial situation when it comes to governmental support. The Ministry of Education and Science may decrease its de jure responsibility towards financing some elements of HE and it might be followed by introduction of a new financing mechanism:

- A certain norm of state financing per student may be introduced. It will be based on the actual annual budget of the country, allocated to education. These funds will be transferred to the University with respect to the amount of graduates requires by the economy, but they will not be ear-marked in any way.
- Elimination of certain expense items financed by the federal government is possible.
- Reduction of the amount of educational services offered by means of the federal government and regulation of other services that would require tuition fees.
- Separation of HEIs according to financing sources is another mechanism: some HEIs are to stay under the federal financing, other are to be financed locally, the rest will be left without governmental support whatsoever.
- Those HEIs that will be subsidized by the government will have to get used to increased accountability with respect to their incomes and expenses.
- An enlargement of HEIs is another way to go: the amount of students remains the same, but the amount of locations, hence, premises, decreases.
- Stimulation of investment from the business sector may be done by means of offering tax breaks to companies in the amount of the funds invested into a HEI. A combination of state and private funds allows the usage of two financial schemes. The first one being the one of development: a HEI gets as much funding from the state as it manages to get from the business. The second one is the one of stabilization: the governmental financing is decreased by the amount of funds acquired by the HEI from the business sector.
- Elimination of dormitories, canteens by means of outsourcing or privatization.

The future in Russia is uncertain, hence, a traditional approach to strategy is at best marginally helpful and at worst dangerous: underestimating uncertainty can lead to strategies that neither defend a HEI against the threats nor take advantage of the opportunities that higher levels of uncertainty provide. The worst situation of uncertainty is when it is virtually impossible to identify a range of possible outcomes. This situation is transitional by nature, often emerging after major shocks, i.e. the post communist Russia in the early 90s. Now, almost two decades later, the situation is not that drastic anymore, although it is still far from acceptable. Changes are being implemented almost on a daily basis. Higher Education is not an exception, but rather a priority at the moment. Kuzminov¹⁰ proposes four categories of HEIs to be established: a top level group capable of becoming Federal or research Universities; a second tier of teaching Universities rewarded with selective funding to help them aspire to research status; a third tier of HE colleges with no research component that could be left as institutes, as Fursenko¹¹ proposes, depriving them of the status of Universities; and the fourth level of institutes, those that fail to meet acceptable standards, should simply cease to exist. This could be achieved either by transferring their students to viable Universities or amalgamating them with stronger institutions.

As has been mentioned earlier, the state support of HE in Russia is bound to change in the years to come: several scenarios are possible¹²:

- Gradual increase of state financing of HEIs and as a result, in 10-15 years time the return to the state of fully governmentally-financed HE system. This model is only valid if we rely on the economic growth in the country, but the situation is highly uncertain at the moment. This scenario would make HEIs become adaptors.
- Introduction of overall tuition fees and state credit schemes. In this model the graduates are responsible for paying up once they start working. This can only be

¹⁰ The rector of Moscow's Higher School of Economics - one of Russia's top Universities

¹¹ The Minister of Education and Science in Russia

¹² Scenario is a methodology that allows us to focus on critical uncertainties, which are traditionally relegated to a self-contained, separate risk assessment. Scenario planning embraces uncertainty in a flexible framework and describes possible futures to enable one to make plans and form strategies even in the most uncertain times. The most important output is a shared understanding of possible futures, of the ways in which one can tell which of these futures is starting to occur, and of the actions one might need to take in each future.

possible once the wages levels in the country reach “acceptable” levels and there is a visible financial differentiation between a higher education diploma and lack thereof.

- Establishment of private funds to support students by means of grants. This model presupposes the existence of tax breaks for businesses that transfer money to such funds.
- A certain mix of federal support to cover the minimum expenses of the institution combined with federal projects aimed to support only selected institutions. This model cannot work without some institutions being left without any federal support. This scenario presupposes a high level of proactive development of the Universities, their transformation into so-called shapers.

The last scenario is the one that seems to be unfolding in Russia at the moment: the establishment of federal Universities, implementation of University-specific projects, etc. But it's obvious that scenarios do not unfold in vacuum, some elements of other scenarios are likely to fall into play as well. The government tries to interest Universities in establishing endowment funds; to introduce feasible credit plans.

The sudden decrease of the federal control after the collapse of the USSR led to a rapid increase in the amount of HEIs all over the country. Kuzminov¹³ says unrestricted growth of University-level institutions in recent years has left Russia's HE system a mess with wide disparities in standards of teaching and qualifications. Too many institutions were attempting to teach University-level qualifications with inadequate resources and too few staff to cover the range and depth demanded of quality HE (Holdsworth, 2009). Official statistics suggest nearly a third of Russia's 650 public and 450 private Universities have one researcher and only 16% of 625,000 or so University teachers were engaged in research.

At the same time, it looks like federal control might be coming back. The Ministry of Finance has a new fiscal policy, as it would like to exert more control over HE by allocating funds directly to institutions rather than through the Ministry and by controlling all HE assets, not only funds from the state budget, but also the HEIs' commercial accounts. This is a serious threat to financial independence and autonomy of HE (Stevenson, 2000). The government resists letting Universities receive outside income earned using University resources. There is

¹³ The rector of Moscow's Higher School of Economics - one of Russia's top Universities

little legal protection for the University as a corporate entity, for example, for its right to receive overhead from income generated by University faculty using University resources (Stevenson, 2000). Many Russian Universities have become highly entrepreneurial, but the high level of entrepreneurialism often does not benefit the University as a whole through redistribution of resources and cross-subsidization (Stevenson, 2000). According to Stevenson (2000), a broad picture of financial support for HE in Russia should resemble this:

- Social support through a targeted stipend system. The principle will increasingly be that the money follows the student.
- The development of a system of per-student normative financing as a balance between the market and stronger government intervention. (Stevenson, 2000)

2.3. Internal efficiency in Higher Education

Russian Universities are highly entrepreneurial in generating new funds (Stevenson, 2000). But they are not attentive to internal cost savings and efficiencies. One area that stands out is the need to reduce student/ staff ratios. The 1999 OECD study found average ratios of about 5:1, which is higher than in European HEIs. Other efficiency enhancing measures may include a review of academic specialties with declining enrolment; reducing average class size; reviewing teaching methods with the aim of increasing independent study and reducing the high number of classroom hours. Attention should also be paid to funds allocation methods as a way of allocating funds to growing areas (Stevenson, 2000). In economic analysis, education is seen as a production process in which inputs (students, teachers) are combined to yield desired outputs (student learning) within the education sector, and larger societal outcomes outside the sector (increased earnings in the workplace), under the prevailing educational technology and input prices. A major application of economic analysis is to inform decision-making in education in order to improve efficiency in educational production; that is, producing more desired outputs and outcomes given the resources.

Analytically, educational efficiency can be distinguished as internal and external. The former one relates educational outputs to educational inputs, while the latter relates educational outcomes to educational inputs (Applying economic analysis..., (n.d.)). Efficiency is defined in at least two different ways: in terms of the refinement of existing products/processes (static efficiency) and as the development of new ones (dynamic efficiency). While internal (static)

efficiency is part of the model of perfect competition, dynamic efficiency is not. Dynamic efficiency prevails when innovations in products and processes are initiated and adjustments to changing technologies and needs are carried out smoothly. The external efficiency of education is improved when more education outcomes are produced at given education resources or fewer education resources are used in producing the same amount of education outcomes. According to human capital theory, education is a form of human capital that could raise the productive capacity of individuals in economic production. At the macro level, education is also associated with economic growth. Spending on education can be seen as an investment with both costs and benefits, and thus subject to a cost–benefit analysis. A review of rate of returns studies, such as the study of Psacharopoulos (1994), found that in developing nations, education had a high rate of return¹⁴.

A subject of sustained interest for Russia is the economic analysis of new educational technology due to the need to reduce unit cost and meet the demand under tight state budgets; to improve educational quality through cost-effective methods. It would be wrong to focus only on central government and external sources for financing education: the community has to be a source of financing HE as well. Moreover, private organizations could have an important role in raising additional resources for education. According to Johnstone (2006), the efficiency rationale assumes a greater efficiency when there is a charge, or a price, that reflects at least some of the real costs¹⁵ involved in the provision of HE. In contrast, HE that is free or nearly free to the student can be either over-consumed or consumed with insufficient academic effort, because there is too little cost incurred by the student and therefore too little foregone by the participation¹⁶. Some tuition fee is thus assumed to induce a harder working student who is more perceptive and demanding as a consumer¹⁷ (Johnstone, 2006).

¹⁴ Bennell (1998) has criticized these studies, in terms of appropriateness of method and quality of data. Educational expansion in an emerging economy could lead to unemployment of the educated or overeducation.

¹⁵ The costs of education refer to resources utilized in the education production process; they include state expenditures, household spending on education and the foregone opportunities of schooling.

¹⁶ A note from the personal experience: having studied at several HEIs in different countries, I do not think that I had different attitude towards studying due to whether I had to pay tuition fees, whether I got scholarship to cover tuition fees or whether the program was tuition free.

¹⁷ This point of view will be eagerly refuted by Russian academics, who, until nowadays believe that if a student is paying tuition fees, than he/she is not smart enough to have entered the institution on a state-subsidized basis. The same opinion exists among students as well. And it will take time before this mentality changes.

The criteria of efficiency	The indicators of efficiency
The degree of completion of tasks and functions	<ul style="list-style-type: none"> - The degree of completion of implemented tasks, according to the planning documentation - The quality of the tasks completed, according to the established quality standards
Internal efficiency	<ul style="list-style-type: none"> - Productivity - The absence/presence and the amount of maintenance expenses of not pre-planned origin - Economic usage (expenses per unit in comparison with similar products/services; the absence/presence of downtime; etc) - The usage of resources (non-usage/not full usage of financial, human, tangible and intangible resources) - The condition of the main resources, reserves and funds - Equity/debt ratio and liquidity of current assets - Extra expenses in connection with liabilities
Negative collateral results	<ul style="list-style-type: none"> - Expenses necessary to correct problems - Work hours needed to correct problems

Figure 1. The criteria and indicators of the HEI efficiency

The concept of internal efficiency has two main advantages (measurability and analytical clarity) as a tool of educational diagnosis. However, it can easily lend itself to over-interpretation. The limitations of the educational internal efficiency must therefore be recognized and respected:

- Inputs: Costs of education are not a simple linear function of the number of students.
- Outputs: the fact that the output is equated with number of graduates makes for a very narrow view of the education process and its contribution to economy and society.
- Efficiency: 1) internal efficiency does not necessarily ensure external efficiency; in reality, the two concepts frequently militate against each other; 2) the reduction of educational wastage through higher internal efficiency will not necessarily, contrary to popular beliefs, entail any budgetary savings.

Special attention should be paid to literature that is devoted to practical ways of increasing productivity and internal efficiency of Russian HEIs, stabilizing their financial position through efficient budgeting. A number of Russian researches have engaged into finding strategies and techniques that are to help the University administration optimize their budgeting systems.

Maltseva (2005) touches upon various aspects of strategic management, including tools and technologies (like the system of balanced indicators, budgeting, calculation of expenditures, etc). The article presents characteristics of different types and stages of budgets at the University. The author pays attention to semantic differences in the meaning of the word "budget" in Russia and in Europe. In Russia "budget" is looked upon as finance that is at disposition of state government, local authorities, or an organization whereas in Europe the meaning of the word in question is closely related to a list of all planned expenses and incomes (the budgeted balance statement). The author uses the European meaning of the word "budget" in the article¹⁸.

¹⁸ The author's description of the operational budget, costs of educational services and the profitability will be later incorporated into the analysis.

Titova, & Sinelnikova (2005) present the notion and goals of audit efficiency. The authors take up the method of evaluating efficiency of state funds with the use of certain examples. The idea behind the audit is to analyze the purposefulness of using the finance, both included into the budget and not included into the budget. The audit includes financial auditing, auditing of efficiency. The article also deals with the reform of state budgeting, that is being implemented in cooperation with the EU and aims to introduce results-based budgeting in Russia. According to Canton (2001), the link between funding and performance may promote efficiency because HEIs get an incentive to deliver output, since they lose income when they fail to do so. But an output-based funding system could also have disadvantages. High-powered incentives to produce graduates could lead to narrowly focused training programs.

Andreeva (2005) claims that reforming of the state financing in Russia leads to Universities either becoming state independent non-commercial organizations or remaining public. The author recommends the application of results-based budgeting, as supported by the Conception of the reformation of budgeting in Russia. Kluev and Petukhova (2005) discuss the economics of classical University in the period of transition. Their article deals with the transformation of socio-economic relations that forms new structures of economics of all the subjects of market relations including Universities. In Russia financing of HE is characterized by growing decentralization of the budgeting process. As a result the systems of budget formation in Universities and conditions of financial management have been changing. The authors touch upon cost sharing that adds up to the University budget. The main vectors in cost-sharing include diversification of tuition-based programs. Ways of increasing the efficiency of spending are also discussed. Those include outsourcing, pricing strategies, etc.

As a result of the review above, I present the thesis hypothesis:

The National Priority Project is an efficient way of stimulating the Higher Education development.

- ✓ The National Priority Project is a means of increasing the University self-governance and applying a more strategic approach to its budgeting by means of targeted financing by the state.
- ✓ The National Priority Project can help aspiring Universities increase their internal efficiency and competitiveness.

The system of Higher Education in Russia

3.1. Modernization of Russian Higher Education

Russia without a doubt is at the intersection of state and market oriented governance. The state relegated some aspects of control on HEIs themselves, giving them autonomy, but the system of funding and the global political orientation of the education policies are state governed. At this point, the state is not just evaluative: rather, it is a combination of moderate state control with rudiments of evaluation. The national reform that seems to coincide with those that European countries go through (an on-going reform, based on the Bologna Process: it is mainly a coordination of the system of points and standardization of degrees all over Europe). There are tendencies to move to market economy and establish new relationships with the state and the society. Musselin (2005) notices, that the transformation is especially transparent in countries that enjoyed great centralization in the past. It is apparent in most of the post Soviet countries. The USSR concentrated its vocational training resources in areas such as space and military technology. It lagged behind the West in technical and vocational training in other sectors as the students' preparation in these areas ended at the secondary level. All the research was conducted by the Academy of Science, which still exists as the main centre of fundamental research in the country, whereas Universities mostly engage in research of local relevance.

The prerequisites of successful modernization of Russian HE are the following¹⁹:

- A high level of development of pedagogical science, which is a sign of an ideologically oriented educational system; more practice and market orientation, establishment of better connections with the business sector;
- Well-developed scientific research in HE and integration of academic and scientific processes; more applied science than fundamental science;
- Methodological and organizational innovations and the ability to put them into practice according to state programs and a system for upgrading the qualifications of University managers and academic staff; clear objectives.

¹⁹ Based on the classification of Gaman-Golutivina (2007)

The Russian system of HE has already implemented a lot of changes in a decade. The principles of the centralized model have been refused and substituted:

- The principles of leadership and governance: Rector is no longer appointed by national ministry, but by the faculty. Hence, governance "top down" for all HEIs has been substituted with authority held by Rector and other elected bodies.
- Allocation of University resources: Salaries are no longer established by the state. Minimal base salary/workload set by state are supplemented by University with own funds. The national government is no longer the sole funding organization. Non-governmental revenues are encouraged from tuition, R&D, etc.
- Curriculum: Curricular content and length of each program are no longer specified by state. The faculty established the curriculum for approved programs.
- Standards and numbers of students: Admissions and total enrolments are not controlled by the state for each program for each HEI. Admission numbers for state institutional support and student allowances are neither established by state.
- Awarding of degrees: Degrees are still awarded by the state rather than the institution. But they now conform more nearly to European and North American standards.

3.2. The internationalization of Higher Education and the place of Russia

Globalization has become possible as a result of "technological changes that are literally making the world smaller" (Barrow, 2003). It is curious to note that for Russia, its participation in global processes started with the world becoming much larger than it was: the iron wall was removed thus making inflows and outflows of information possible. As a BRIC country²⁰, Russia feels all the importance and inevitability of moving along with the trends of globalization, as economy is the sphere where global trends are most prominent.

When it comes to internationalization, Russia does not seem to be rigorously following this path, as, despite globalization, borders are not opening up as expected:

- Student flows are not very substantial, mostly due to language barriers, as education in the country is almost solely in the national language;

²⁰ Rapidly developing countries, that include Brazil, Russia, India and China

- International flows of academic staff (Scott, 1998) are important but not vital;
- International collaboration of HEIs is a recent but steadily developing phenomenon, especially visible in the enclave region of Russia, but visa issues are hard to overcome.

Nonetheless, globalisation and internationalisation left their fingerprints on the educational reforms in the country. More attention is being paid to international rankings, like the Shanghai one, although some of the criteria like the amount of citations in international journals prevent Russian Universities from reaching the top. This ranking is a very good political tool to shake the ossified bureaucratic structure of European Universities that have been going nowhere for ages and discovered that they were not on top of the world as they believe to be. So it is a wakeup call if not a rational measure of research. Many arguments can be found to prove these rankings are short-sighted (for example, the University as a whole is being judged, whereas it is hard to find an institution that is good in everything; usually it is one department that pulls the whole University forward), but the point of importance for this thesis is that academics resist change and try to deny the fact that the Russian system of HE needs to get out of stagnation. Some people like Prof. Sadovnichy²¹ oppose Russia's participation in the process of creating the European HE Area claiming that "this would equal a brain surgery where Russia would be attributed the role of an organ donor" (Subetto & Chekmarev, 2003). Of course, there are plenty of advantages to the unification of the HE systems, but an adequate ratio between international advice and national necessity to implement changes in HE has to be preserved.

The collapse of the communist regime that has been one of the markings of the "new world order" (Maassen, 2002) was a combination of national and global tendencies for Russia. The collapse of the union by itself has provoked unavoidable reforms that eventually set up the country in connection with the rest of the world and thus led to global influence on the national reformation. This almost immediately led to changes in HE, for example, the appearance of private HEIs. Another visible influence of global trends is "the effects of international reform ideologies" (Maassen, 2002: 16). This shows in sudden preoccupation with questions of quality of education, control and evaluation, steering of Universities, etc.

²¹ Rector of the Moscow State University

The global phenomenon of lack of balance between the society's expectations and demands and the Universities capabilities to satisfy those needs (Maassen, 2002) is also persistent in the Russian reality. Accountability is not being used, as it should be, as the system is still in transition, but we can assume that soon enough managerial restructuring will be inevitable and the necessity of accountability will follow. But this will only happen once the whole system begins its transformation. The state has to give up some of its regulatory and controlling functions and become more of an observer and evaluator. This brings up the issue of resistance of those who have the power to give it up.

If one follows Olsen's classification of four steering models, elaborated on by Gornitzka and Maassen (2000), it is possible to place Russia's way of state intervention as a transition from the sovereign model with the state imposing HEIs its righteousness in any sphere of political, societal, etc. life to the corporate-pluralist steering hybrid with the state still participating in the process but relegating some power to the Universities and business. If one tries to classify Russia in terms of another approach: state control model and state supervisory model (Maassen and Van Vught, 2002), then it is safe to say that Russia is stuck in the middle.

Chapman (2002) categorizes the common changes that HE in developing countries usually goes through. Russian HE sector at the moment is in the process of all three of them:

1. Privatization, or an increasing orientation to markets and clients, an inclination to management practices associated with private enterprise, a lessening of financial dependence on the government or taxpayer, and a receptivity by the state to privately owned, tuition-dependent, institutions;
2. Decentralization of control from the national government to regional governments.
3. Autonomy of the University from some measure of governmental control, quite apart from public or private ownership or dependence on governmental or taxpayer revenue.

All of these transformations are reflected in the changes of the University governance structures. The next chapter looks into the dimensions of University governance and their interdependence with the external conditions of HE in Russia.

3.3. Governance dimensions

The changing economic and political environment requires adequate changes in the governance of the University. Democratic changes in the environment with more connections and mutual influence of different economic and political structures require the University to be more open, flexible and mobile than the existing system of the University's governance allows. The existing University governance mechanism corresponds to the new conditions no more. The University cannot exist as a closed system in an open democratic society. Because of the broadening of the outer contacts, the contacts between the Departments of the University and inner administrative structures became chaotic and less manageable. It's become difficult to coordinate the activity of different structures; sometimes their activity contradicts to the University's mission and its basic interests. The University's administration is focused mainly on the fulfilment of everyday tasks. The academic council also deals mainly with the current educational and scientific needs. General strategy of the University development is often neglected; hence, to be able to fulfil its mission the University needs a new level of coordination and governance in order to coordinate its activity and to interact with the society at a different level, as an open structure.

There exist five governance dimensions that together create a mix that reflects a particular mode of governance:

- (State) regulation (concerns top down authority vested in the state). This dimension is characteristic of the Soviet and post Soviet times. After the collapse of the USSR, while public HEIs debated what to do with their academic freedom, private schools became centres of innovation, with programs combining Soviet pedagogy and teaching methods from the West. According to Verbina (2004), increasing decentralization of government led to growing regional inequality and inequality in access to education. Current official policy is to expand access to HE and ensure equal rights for all candidates with the proper range of abilities. At the moment, admission to HEIs at the state level is unrestricted, apart from educational qualifications and abilities of candidates. (Bolotov, 1997)
- Stakeholder guidance (Directing Universities through goal setting without prescribing how goals must be achieved). The current position that Russian public HEIs find themselves in is constant dependence on the state, but the state is no longer the sole

stakeholder. Other important stakeholders guide the University development. E.g., research partners engage HEIs in international projects. Students and student unions are in the process of becoming an important stakeholder: there are student representatives in the Academic Council of HEIs.

- Academic self-governance (Collegial decision making and peer review based self-steering). Russian HE has never been far along the academic oligarchy dimension. Rather it has been moving from the state regulation to the market model of governance.
- Managerial self-governance (Universities as corporate actors; institutional leadership affects agenda setting and strategic decision making). Although there remain strong and significant central ministerial controls over finance and processes of attestation and accreditation, over the nature and granting of degrees, and over the numbers of students to be admitted, other central controls, that were the basis of the centralized model, are diminishing in effectiveness.
- Competition for scarce resources (Allocation of services through market based mechanisms). In Russia, which has a historical, ideological, and constitutional history of free HE, financial pressures on the Universities and the need to supplement the insufficient state funding have forced Universities to maximize the conditional exceptions to free HE²². Universities are now allowed to charge tuition to individuals who were not regularly admitted under examinations and state quotas (Bain, 1998).

Many public institutions have come to depend on tuition revenues as the second major income source after state allocations. The size of additional revenue generation varies by institutions and by the year, ranging from 20 to 60 %. Thus tuition policy plays an important role in the economy of public HE institutions in modern Russia. This policy has allowed a substantial increase in enrolments in HEIs. From 1992 when the policy was introduced to 2005, the system tripled enrolments (Shamsutdinova, 2006). Other researchers claim that it was illegal for Russian Universities to charge tuition fees up till early 2000: "Many Russian Universities, as of the early 2000s, were getting as much as one-third of their revenue from tuition while still adhering to the tradition and legal requirement of free higher education" (Teixeira, 2006:17).

²² As specified by Article 43 of the 1993 Constitution of the Russian Federation.

For a government to let go of expenditure controls requires trust on the part of the government that the University decisions, with fewer expenditures controls, will not be corrupt in priorities. Trust does not come naturally to controlling governments. Universities can make a claim to fewer expenditure controls with transparent budgeting, and performance measures that allow audit, which is a transition to an evaluative state. Probably the greater barrier in many countries is corruption, which makes governments reluctant to loosen their controls over expenditures²³.

As much as Universities prefer to stay away from change, it is inevitable to update their organizational structure in order to meet the needs of a new knowledge society. But as Gumpert (2000) warns us in her article on academic restructuring, HEIs have to keep in mind that they are primarily to serve the society and not to adhere to market calls. Universities in Russia are still mainly social institutions, although the day when this changes for the competitiveness in the marketplace is not far.

I believe that in a situation like this, Universities need to look out for themselves, as the state is not coping with the governance of HEIs to the extent that it should. Other means of financing, besides governmental support, have to be sought for. New ways of budgeting have to be implemented in order to allocate the scarce resources in such a manner that will be most profitable academically and administratively. For this, great structural changes might be necessary: strategic planning is the key to solving at least some issues that a state University in Russia is facing day in and day out. However, there are things to look out for.

With this in mind, the University administration can work on the strategic development of the University. Strategic planning is a process of organizational change aimed to “foresee” the future. The basis here is the analysis of scenarios or possible tendencies as well as the analysis of internal and external environments. The interest in strategic planning usually arises when social and economic situation is unstable, when changes are needed because of the clear inadaptation of the existing structure to the realities, i.e. it will be quite appropriate and timely for HEIs. The reasons behind the appearance of interest towards strategic planning are both external and internal. External being mostly of economic and geographical origin, internal ones evolve around lack of governmental support.

²³ This is partly cultural, and government bureaucrats will always be reluctant to loosen controls when there are so many ways of stealing from the public purse.

Following Nechaev (n.d.), I suppose that the Board of Trustees could solve the problems of coordination of the growing connections of the University's structures with the community, on the one hand, (not only with the educational structures, but also with different political, economic and public structures and organizations as well as with foreign educational centres and Universities) and of different structures within a HEI on the other hand, through the representation of interested parties and through determining appropriate functions of the board. It will also help implement the general strategy of the University by controlling the mission fulfilment. The introduction of this new structure will play a key role in changing the University governance, improvement in strategic planning, budgeting and in other areas.

- Board of Trustees can serve as an organ responsible for the University mission fulfillment, being independent and open to the needs of society. Different Universities formulate their missions in a different way, but generally the main idea can be formulated as knowledge production and transmission. This could become the ultimate concern of the Board of Trustees.
- During the Soviet period Universities' activity was under total federal control and there was no need for a University to have a special structure to deal with community or developmental issues. But now the necessity of establishing Board of Trustees is well recognized by the University managers in Russia (Nechaev, n.d.).

Budgeting in Higher Education Institutions

4.1. Expenses and income of a Higher Education Institution

As has been mentioned earlier in the thesis, Russian HEIs are allowed to charge tuition-fees as of 1992. The tuition policy in the country may be described as dual-track, which corresponds to its dual-track admissions policy. The Law on Education sets the quota of students (minimum 170 students per 10,000 citizens of region) that are financed by the state. Therefore, a certain proportion of top scoring students are awarded free tuition (Shamsutdinova, 2006). The second track of tuition comes from students, parents, enterprises and philanthropic organizations for students who have passed the entrance exam, but have not scored high enough to qualify for state support. Instruction on a fee-paying basis is geared to the market value of a program and the prestige of the institution rather than the actually incurred costs. Law, economics, business management and foreign languages are the most expensive fields since they provide training for high demand careers and are most likely to attract students capable of full-cost payment. In contrast, science and engineering are the least expensive²⁴ (Shamsutdinova, 2006). Once the University administration realizes that it is necessary to actually know how much it costs to run a certain program before setting the tuition amount, it will be important to accurately identify the cost drivers, i.e. activities or factors which generate costs. Traditionally, only one cost driver such as direct labour cost or direct labour hour has been used to identify overhead costs. This method worked in the past, when overhead cost was a small portion of the overall cost, while nowadays overhead cost tend to takes up a much larger portion. Therefore, a precise method to estimate overhead cost for products is necessary. This is where activity-based costing (ABC) comes into play. No one cost driver is right for all situations. The accountant's goal is to find the driver that best links cause and effect. E.g., possible cost drivers of educating a student by means of a traditional form of education are direct labour hours and direct labour costs that manifest themselves in wages paid and equipment/infrastructure used²⁵.

²⁴ This is illustrated in Appendix 2

²⁵ If the activity base used to apply overhead costs is not a primary cost-driver, the relative production cost of different products and services may become distorted.

According to some researchers (Teixeira, 2006), Russia has very few governmentally sponsored students entitled to free higher education, presumably²⁶ selected by competitive examinations. This is not exactly true, as is shown in the next figure²⁷, taken from the official statistics website, unless a figure that is higher than 50% can be considered as “few”.

Region	The percentage of tuition paying students
Russian Federation	40,7
Central Federal Region	39,6
North-Western Federal Region	37,5
Southern Federal Region	31,5
Volga Federal Region	41
Urals Federal Region	51,5
Siberia Federal Region	45,2
Far Eastern Federal Region	44,2

Figure 2. The percentage amount of tuition paying students in Russian HEIs in 2004

In order to attract roughly a half of the student population that a University needs and to get that extra financing that will help the institution make ends meet, universities have to appear attractive to business entities and students. Let alone being considered to be aspiring to become a research University in order to qualify for state financing. In order to get a clear picture of the financial attractiveness of a HEI it is necessary to analyze the influence of factors, that add up to the costs, incurred by the HEIs when it comes to educational services. (Batashov, 2004)

Let me take a look at the factors that can lead to an increased financial stability of a HEI. According to Batashov (2004), this can be done by means of the leverage formula, which shows the interdependence of increase/decrease of profit and the volumes of production. Batashov (2004)

$$OL = (S - C + C_c) / (S - C),$$

Where OL is the leverage,
S is the summed amount of income from the educational activities,
C is the variable costs of the project,
C_c is the fixed costs of the project.

²⁶ The examinations are competitive. There is no need to presume, but to refer to websites of any Russian HEIs and get acquainted with the entrance requirements.

²⁷ http://stat.edu.ru/scr/db.cgi?act=listDB&t=v_1&group=sub&ttype=0&Field=N1

The presence of the variable costs as a part of the expenses is a risk factor as it destabilizes the dynamics of profit acquisition. Another variable can be demographics. According to the census information, the population in Russia is stably decreasing.

Year of birth	Amount
1985-1981	11,647,175
1990-1986	11,930,143
1995-1991	8,264,026
2000-1996	6,409,944

Figure 3. The population of Russia in 1981-2000.

Consequently, as is seen from the next figure, the market of educational services faces a stable decrease of the amount of potential students. The current increase of the amount of students is explained by the baby boom of the eighties; but it will eminently be followed by a decrease due to the demographic gap. This means that the governmental financing (which is currently based on the amounts of students) will decrease. At the same time the worsening demographic situation has a positive effect; e.g. the student/teacher ratio is changing for the better (Batashov, 2004).

Name	1999/2000 academic year	2000/2001 academic year	2001/2002 academic year	2001/2002 in relation to 1999/2000	2001/2002 in relation to 2000/2001
Amount of state HEIs	88	94	98	111,4%	104,3%
Amount of students in these HEIs, in thousands	607,8	708,7	810,6	133,4%	114,4%
Amount of academic staff, in thousands	49,1	51,3	52,1	106,1%	101,6%

Figure 4. State Higher Education Institutions in Moscow

Besides that, Universities have to follow state regulations that bound their freedom. The acts of legislation that put financial restrictions on Universities in Russia include:

1. The license to provide educational services
2. The Federal Act of the Russian Federation # 125, dated August 22, 1996 "On Higher Professional Education"
3. The regulations on accreditation/licensing of educational services of a HEI.

A HEI incurs the following costs when it comes to educating a student:

- Infrastructure (buildings, facilities, equipment, their amortization and maintenance)
- Salaries and wages
- Variable costs

The first two groups can be considered fixed as their size is strictly regulated by the accreditation acts. In order to decrease the students' investments risks, HEIs have to use non-state financing. Nonetheless, it is very challenging for Universities to decrease their expenses due to accreditation regulations. One way would be to substantially increase non-traditional forms of education (distance learning, evening classes, correspondence, open schools) (Batashov, 2004). The current professor/student ratios for different forms of education are as follows:

- Internal (the traditional full-time education)- 1 to 10
- Part-time (combination of physical presence and correspondence)- 1 to 18.75
- Correspondence school- 1 to 43.75

Hence, it is possible to introduce non-traditional forms of education and increase the professor workload for up to 4 times. In the same manner, the usage load of the infrastructure is increased by the same number. But, there is only so much the administration can do to control the expenses. Another thing is to pay attention to the income account of the budget statement. The University management has to make sure that every University employee²⁸ thinks of ways to increase the account as if it were his/her own company. At the same time the administration has to follow the steps depicted in figure 5 in order to successfully balance expenses and incomes of the institution.

²⁸ Be it an academic or an administrator

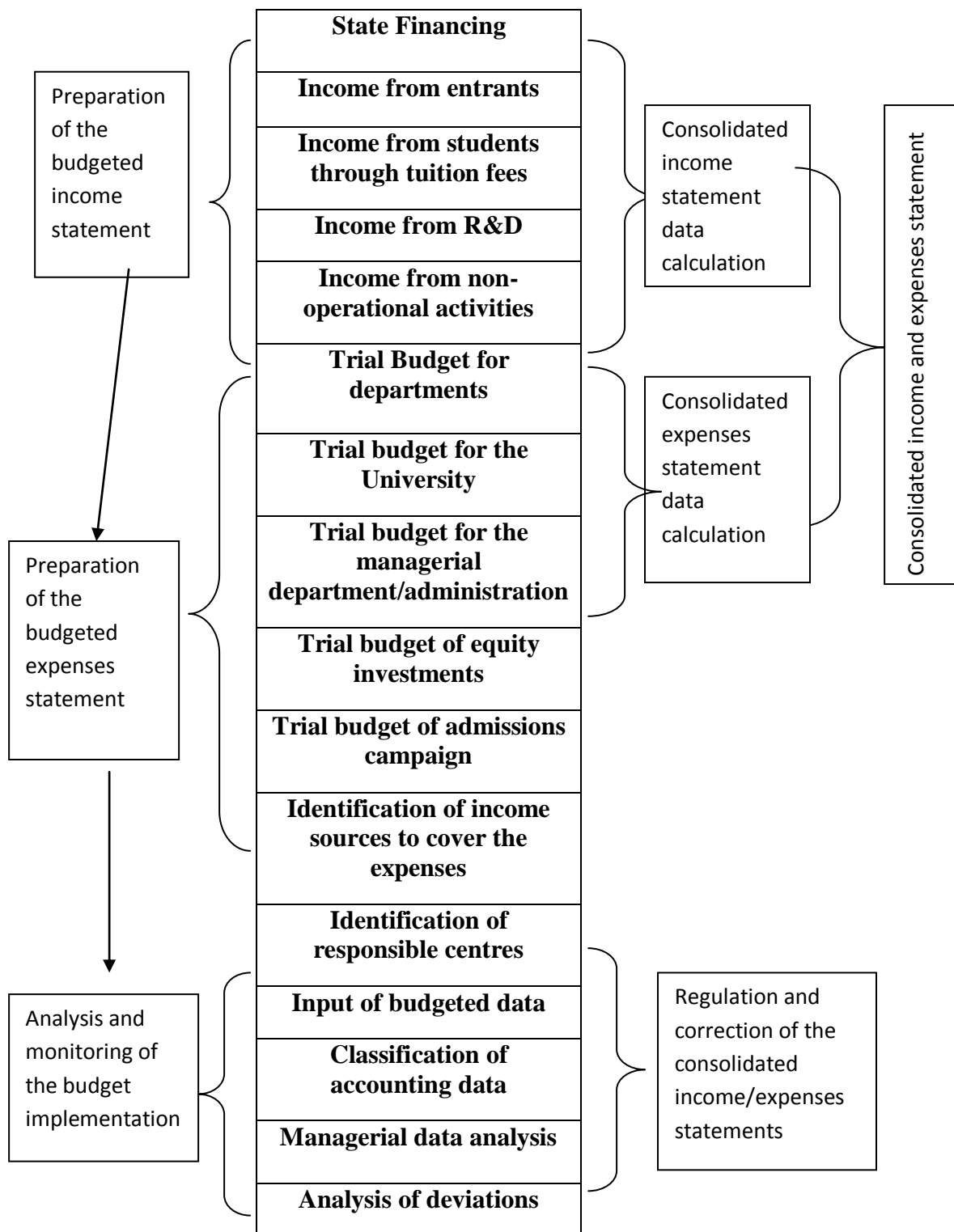


Figure 5. The main steps in planning of expenses and income of a HEI

The main items of expenses for Universities are set by the government in accordance with the functional structure of expenses for state organizations. They include:

- Current expenditures are to provide for University functioning within a fiscal period:
 1. Wages;
 2. Taxes in connection with wages paid;
 3. Purchase of consumables for equipment used;
 4. Business trips;
 5. Transportation and IT costs;
 6. Rent and utilities;
 7. Renovation of facilities;
 8. Welfare payments (scholarships).
- Capital expenditures are to assure the University development:
 1. Purchase of equipment;
 2. Building of new facilities;
 3. Major repairs and renovation of facilities;
 4. Purchase of land and intangibles.

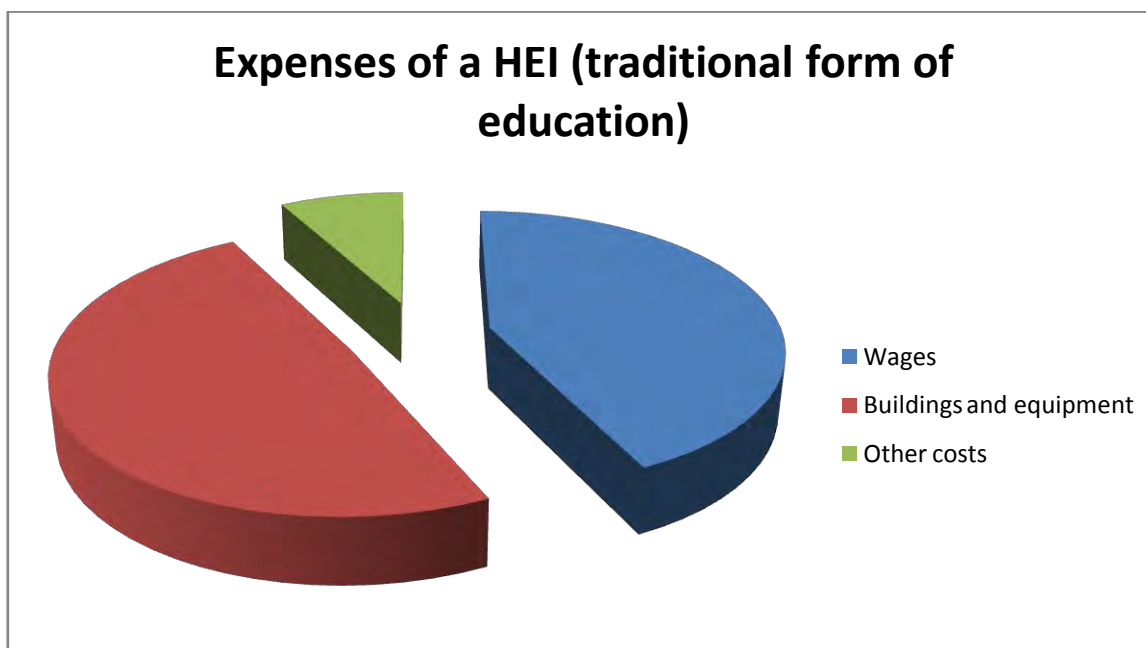
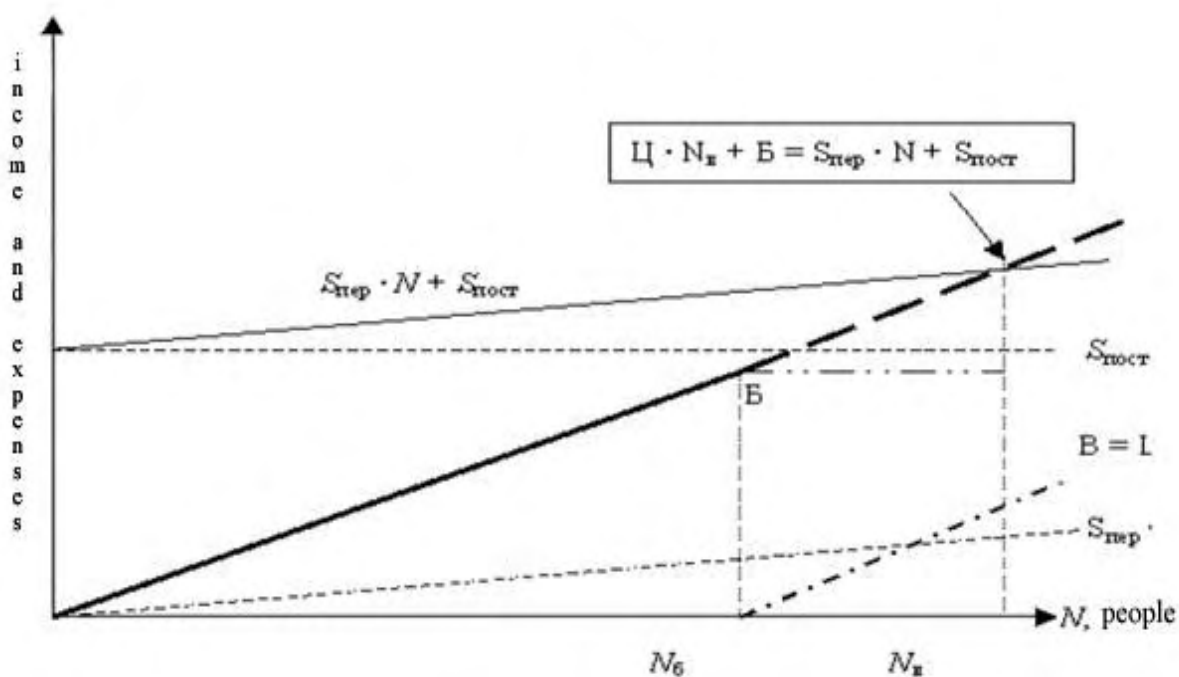


Figure 6. Expenses of a HEI (traditional form of education)

According to Belyakov (2006), if a HEI does not have problems with paying off its credits, paying wages on time and deals with its liabilities in a timely fashion, then its financial position can be considered as good or normal. This seems to be a rather simplistic way of looking at the economic position of an institution, provided that in order to have a clear picture of a financial situation of any business entity, one needs to analyze a lot more than just equity to debt ratio.

The author goes on highlighting the differences between a HEI and any other institution. He proposes the financial situation to be looked at from two angles: the state financing and the non-state financing ones. The latter one needs to be looked at the same way as any for profit organization is looked at, as it simply means the University providing services to the society and thus getting income. Hence a breakeven point can be used as one way to analyze the financial position of a HEI. Figure 7 is a schematic representation of break-even point calculation for a HEI.



N is the total amount of students; $N_Б$ is the number of students who do not pay tuition fees; $N_Б$ is the number of students in the breakeven point for the University; B is the University income from educating students who pay tuition fees; B is the amount of state financing for education; $S_{пост}$ is the fixed costs of educating students; $S_{пер}$ is the variable costs of educating a student

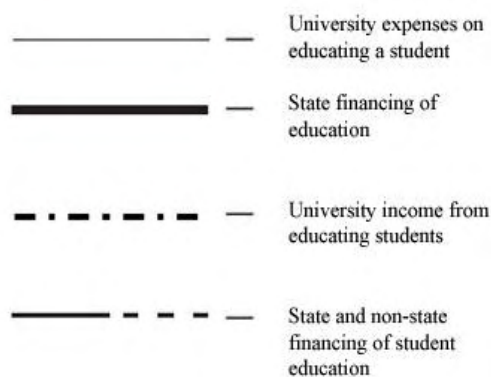


Figure 7. The breakeven point calculation for a HEI²⁹

4.2. The budget per se

The budget of a HEI is an essential element of the strategic management of an institution. Simply put, the University budget is a compilation of the budgets of all department and units of this University. In order for every level of governance to have their own resources, they need to prepare a budget for the coming fiscal period. The departments are independent when it comes to how they use the funds available to them, but the heads of the departments are responsible for how their department is doing financially. There are limits placed for monthly usage of an annual budget. The results of the implementation of the budget allow monitoring the efficiency of the management of the department.

The main principles of building the budgeting system in the University are:

- The methodological unity of internal financial systems;
- Complete accountability of expenses incurred and incomes received;
- Openness and publicity;
- Allocation of budgeting responsibilities on different levels of governance.

²⁹ Taken from Belyakov, 2006

The current budget of Russian Universities functions under the conditions of deficit. The University income consists of two primary sources: the state subsidy and the private funding. The finance that the University receives from the state is rather earmarked and redistribution of the funds is not allowed. The University bank accounts are controlled by the Treasury and the usage of state funds is to be strictly for the intended purposes, be it scholarships, wages payments, renovation of facilities, etc. These funds cannot be used for, say, paying off a credit, and this makes it hard for Universities to get a loan from banks and other private investors.

A developed budgeting system offers real time financial data about the movements of funds, the expense and income accounts for every department, allows monitoring the usage of financial resources and preparation of trial budgets and trial income statements for the next two-three years. The necessary conditions of successful implementation of the budgeting systems are:

- Well organized managerial accounting system;
- An effective system of expense accounts control;
- The organizational structure of the HEI based on strict separation of responsibilities according to the levels of governance and management;

The main aim of budgeting is supplying the managerial staff of the University and its departments with all the necessary information and data in order for them to take managerial decisions in the following areas (Titova, 2005):

- Establishing the necessary levels of material and financial resources, the sources of financing and the most efficient ways of using these resources;
- Development of principles and mechanisms of managerial activities that would allow to prevent negative and crisis tendencies in the HEI;
- Introduction and implementation of the financial strategy of the HEI in order to achieve its stable development;
- Monitoring and correction of financial activities of the University as a whole and the departments of the institution.

The budgeting process goes hand in hand with intensive exchange of information and includes the following stages: planning, monitoring of the implementation, analysis and assessment/correction of the plans.

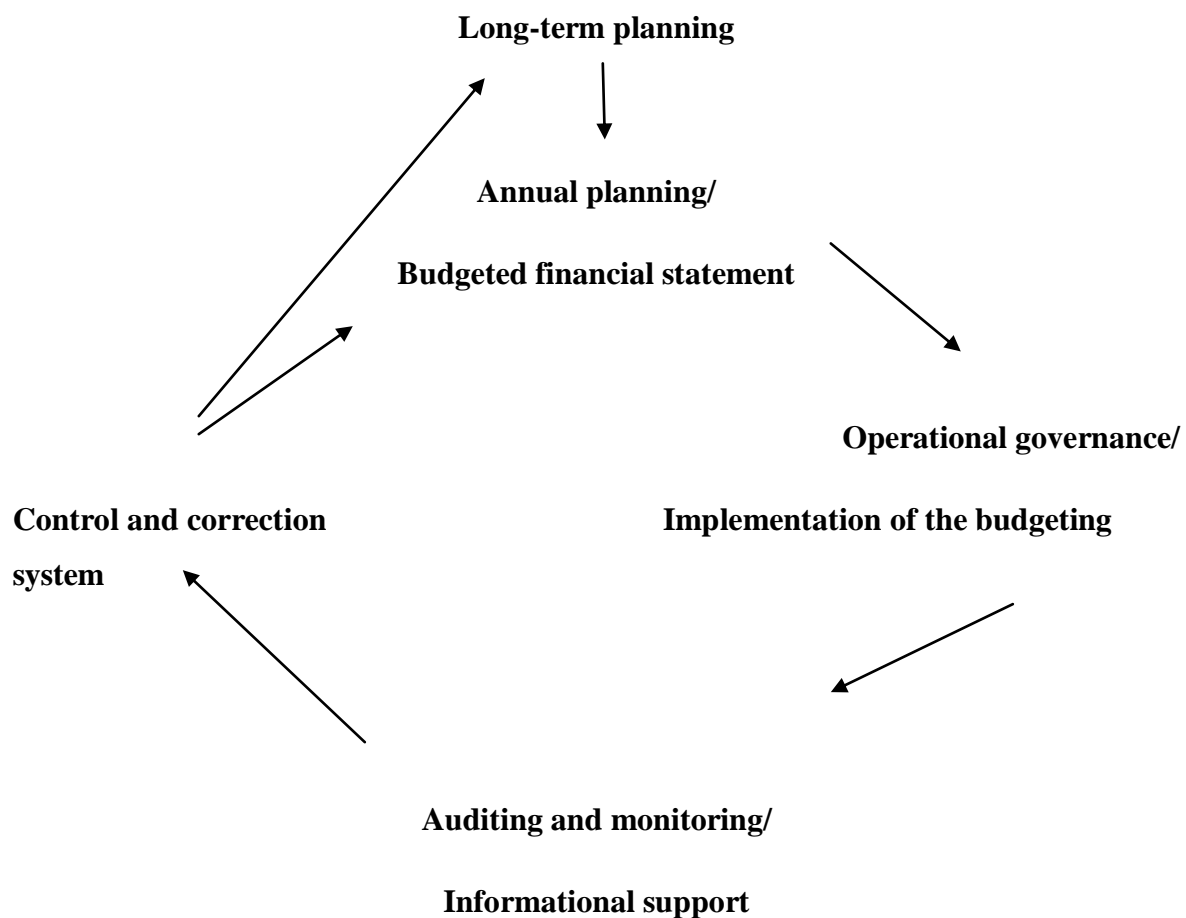


Figure 8. The model of budget planning

Financial strategies flow from the University's vision, mission statement and overall aims. Developing a budget will help administration plan for the costs of implementing these strategies. Benefits derived from budgeting include:

- Enhanced management responsibilities. Thus external economic environment is taken into account hand in hand with internal activities of the University.
- Assignment of decision-making responsibilities. Decisions like holding expenditures or obtaining extra funding for a certain period/unit/activity are possible due to an advance warning.
- Coordination of activities. Budgeting makes it possible to coordinate activities of all the units of the University.
- Performance evaluation. Budgets show expected costs and expenses for each department.

Master budget

Master budget is a coordinated plan of the University functioning as a whole entity. It consists of two main budgets: operational budget and financial one. The operational budget consists of quantitative estimations of services to be provided by means of the expenses and income accounts for every department of the University. It includes:

- The services budget (the assortment line of services, the plan of entrance of students according to the forms and levels of education). It is the starting point of budget preparation and is based on the results of marketing research. The implementation of this budget is influenced by the level of rivalry, the efficiency of the marketing campaign, the pricing policy, cost-efficiency of the services, the economics of the region and etc.
- The budget of education and R&D. This budget is grounded on the previous one by means of calculating the material resources available/needed, the human resources available/needed. In particular, the teaching load is estimated, the preliminary staff schedule is prepared, and a plan of purchases of equipment and literature in accordance with the established norms and regulations is worked out.

- The budget of operational and managerial expenses. It is a detailed plan of current operational and managerial expenses. It mostly consists of fixed costs.
- And the financial budget. It is a budget of possible sources of financing and the ways of putting the funds into action.

The budget is prepared according to the five year strategic development plan of the University for calendar and academic years. The amount of prosperous students is calculated by means of marketing research of the labour market, the demographic situation, the position of the University in the market of educational services, paying capacity of people and other factors. The presentation of planned data is done at three levels (Titova, 2005):

- Level 1 is used by the executive managerial staff. It covers the main budgets that contain financial indicators of the University functioning
- Level 2 includes the financial budget that has information required by the managerial staff of the Department of Finance of the University
- Level 3 is the operational budget used by the heads of units and departments.

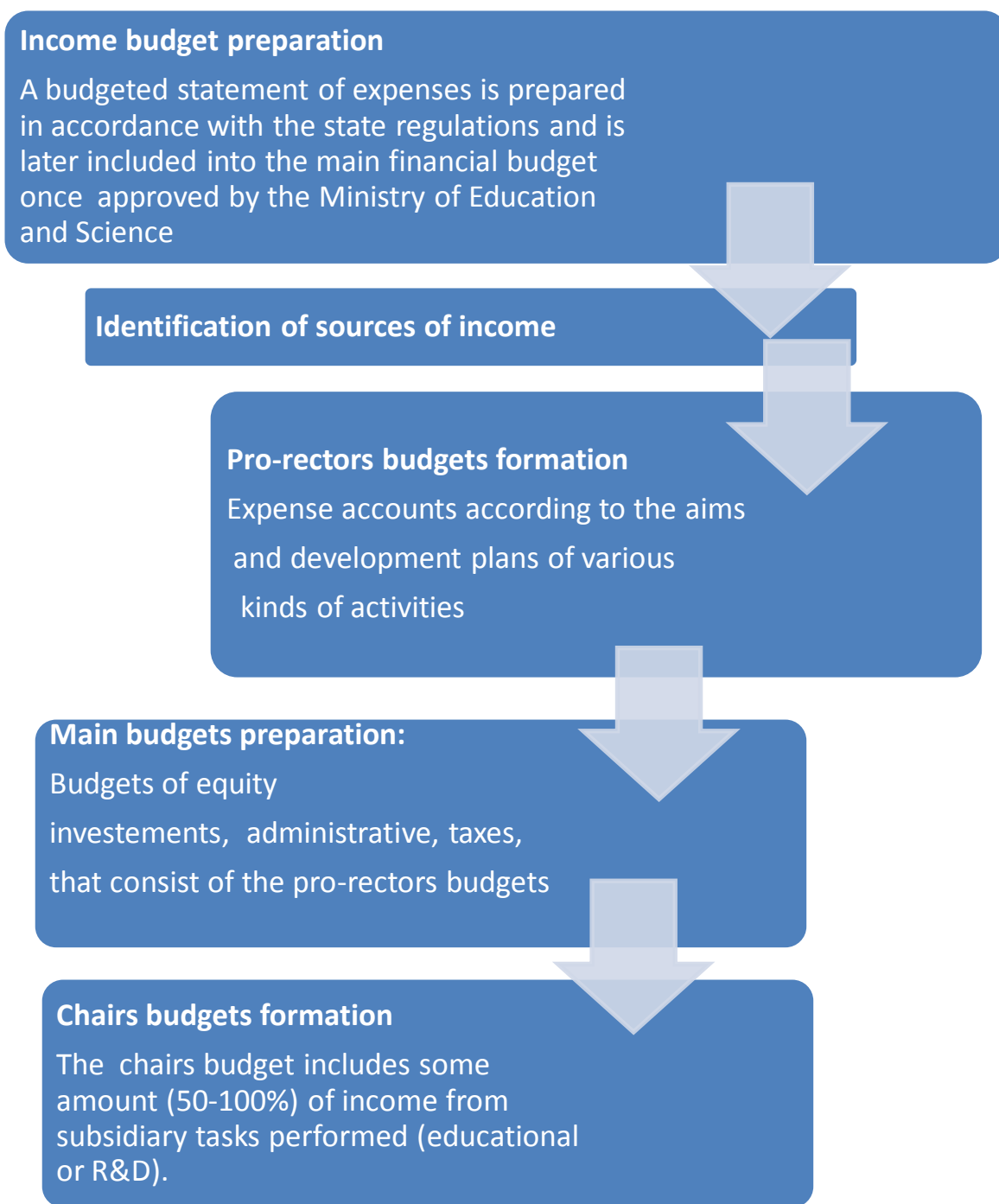


Figure 9. The structure of financial budget formation

In order to use the available financial resources as efficiently as possible the budget of financial transactions is used. It is a plan of flows of financial resources for the coming fiscal period. The accounts of this budget statement show the expected total amount of financial resources and the financial position for every month. In this way monthly periods are classified according to the amount of financial resources available as the periods with budget deficit and the periods with budget profit. If the balance is extremely high, it means that the financial resources have not been efficiently allocated. Being a state-financed institution, the University cannot always efficiently use the resources available due to the restrictions laid by the state. The financial resources are ear-marked can only be used accordingly. When it comes to non-state financing, the University management is not always professional enough to be oriented towards gaining profit and allocating resources.

The main criterion of internal efficiency of the University is profitability of its operational and non-operational activities. Well established and properly run accounting and managerial systems and developed IT system allow calculating the net cost of educational services and their control. This way it is possible to count the cost of a program, the cost per unit³⁰, the profitability of a program, to choose the right pricing strategy, which will ultimately increase the market share of the University. It is advisable to use the step-by-step allocation of indirect costs according to their respective cost drivers³¹.

Universities have a system of income formation according to regulations that are set for every source of income and can amount up to 100%. E.g., financial resources that are put into the income for allocation accounts are:

- 100% of state financing and financial resources received from full-time students;
- 40% of financial resources received from students, other than full-time ones;
- 50% of subsidiary educational services (Titova, 2005).

³⁰ How much it costs to teach one student throughout the program

³¹ First, a predetermined overhead rate must be calculated based on the expected amount of overhead and the expected amount of the cost driver. Then, as the cost driver is actually incurred throughout the period, the predetermined overhead rate is multiplied by the cost driver to apply the overhead to production. The predetermined overhead rate is the estimate of the cost per "unit" of cost driver.

The National Priority Project

5.1. The National Priority Project in IKSUR

Immanuel Kant State University of Russia

IKSUR³² identifies itself as a comprehensive, research-intensive University. Its spheres of research, though, are limited based on geographical scale and local necessity of the region. IKSUR is engaged in defining relations with other organizations (foreign Universities, local and international business entities) and government (both local and federal), controlling collective resources (grants and diversification of funding base) and being special as an organization (having a special purpose, resources and organizational structure). IKSUR has recently updated its mission statement, has redesigned the logos, and changed the name for the marketing purposes³³. The aim of the IKSUR administration is to integrate all of the relevant values (academic, entrepreneurial, bureaucratic and managerial) and make them work together for the sake of the University development.

The strategy of the University has to cover all the issues from financial stability/growth to advancement of educational principles and formation/transmission of knowledge. IKSUR doesn't have external consultancy when it comes to strategic planning; the Rector is the leader who approves strategic movements. He is helped by Vice-Rectors in economics, international relations, educational issues, research and development and IT. The position of the President, who is usually responsible for financial/managerial aspects of running the University, does not exist at IKSUR, which makes the Rector responsible for all the aspects of the University activities. One can question the efficiency of the procedure since being a complex matter, a board of specialists is one way to go. The academic council at IKSUR is responsible for setting objectives in strategic development, changing the organizational structure of the University (including creation of new departments and elimination of old ones), financial decisions (like budget planning), etc. The head of the council is the Rector of IKSUR.

³² More information about the University can be found in Appendix 3.

³³ Previously named Kaliningrad State University

As for the training of administrative personnel in strategic planning and management, there is a positive picture; the personnel has undergone different retraining in the form of seminars, courses, summer schools. This is claimed to add to the staff competencies in management and is helpful in strategy implementation. The strategic plan is implemented in a decentralized manner. The main problems in connection with strategic planning include lack of finance, hence, lack of qualified personnel to do the planning. Insufficient number of staff leads to not well thought through strategic decisions and constant awareness of lack of finance leads to cuts and economy as the main determinant is declining/accepting a decision. These problems are currently being solved as IKSUR is a participant of a governmental program of the National Priority Project. Some current issues and problems, though, cannot be solved by a single University, as they involve multiple changes at different levels: macro-level changes involve drastic changes in the relations between the state, the market and HEIs; changes at the level of HE system as a whole and Universities as part of the system will follow. Once the grounds have been laid, it will be possible to implement strategic planning as the main way of the University development. Introduction of lump-sum funding will be positive for the University freedom.

The National Priority Project

The National Priority Project of the Russian Federation is aimed to develop social welfare in Russia by additional funding by the state³⁴. The program has been supervised by the Council for Implementation of the National Priority Projects attached to the President of the Russian Federation, created according to a presidential decree on October 21, 2005. In 2007 IKSUR became one of the 40 winners of the national competition among HEIs implementing innovative educational programs. The name of the project that IKSUR is to realize is as follows “The development of innovative educational infrastructure for the strengthening of the competitiveness of the exclave region of Russia”. National Priority Project in Education is a good chance for IKSUR to improve its strategic planning and the accompanying budgeting, accountability, etc. The objective of the innovative educational program is to take the University onto a new level of integrating education, research and innovation. This can be done by implementing the developmental model of the University as an education, research and innovation complex, highly integrated into innovations-based economy.

³⁴ See Figure 10 for data on state financing of IKSUR within the National Priority Project

Sources of Financing	2007	2008
Subsidy	170,5	170,5
Co-Financing	40,0	35,0
Total	210,5	205,5

Figure 10. Financing of the National Priority Project in IKSUR (in millions of rubles)

One of the contingencies that the University has to face is its location in between the EU countries, which is characterized by high intensity of cross-border and international relations within the Baltic Sea region and beyond. That is why the level of infrastructure of the University is extremely relevant for its national and international cooperation in the sphere of HE and R&D. No need to say that traditional connections broke apart in the beginning of the nineties and the system of HE in the region found itself in a tricky situation with no academic potential and no infrastructure to rely on. Due to the strategy of development, IKSUR introduced innovative programs within social sciences and humanities.

The organizational aspect of the Project and restructuring of the University³⁵

The project is realized on the basis of chairs, research laboratories and other University units, including education centres established in collaboration with companies in electronics and software business. The organizational hierarchy of the project is described as flat (almost horizontal). It is decentralized at some levels; different units are responsible for the implementation of respective elements; whereas media and PR are centralized. About 25 people are actively involved into the project realization in 2007. The rate of empowerment of personnel is characterized as quite high.

³⁵ The organizational structure of the project is shown in Figure 10. It presents the organizational structure of the implementation of the National Priority Project at IKSUR. It shows the clusters that IKSUR has to concentrate on within the framework of the project. They represent the most important areas of research and education, as referred to by the University administration.

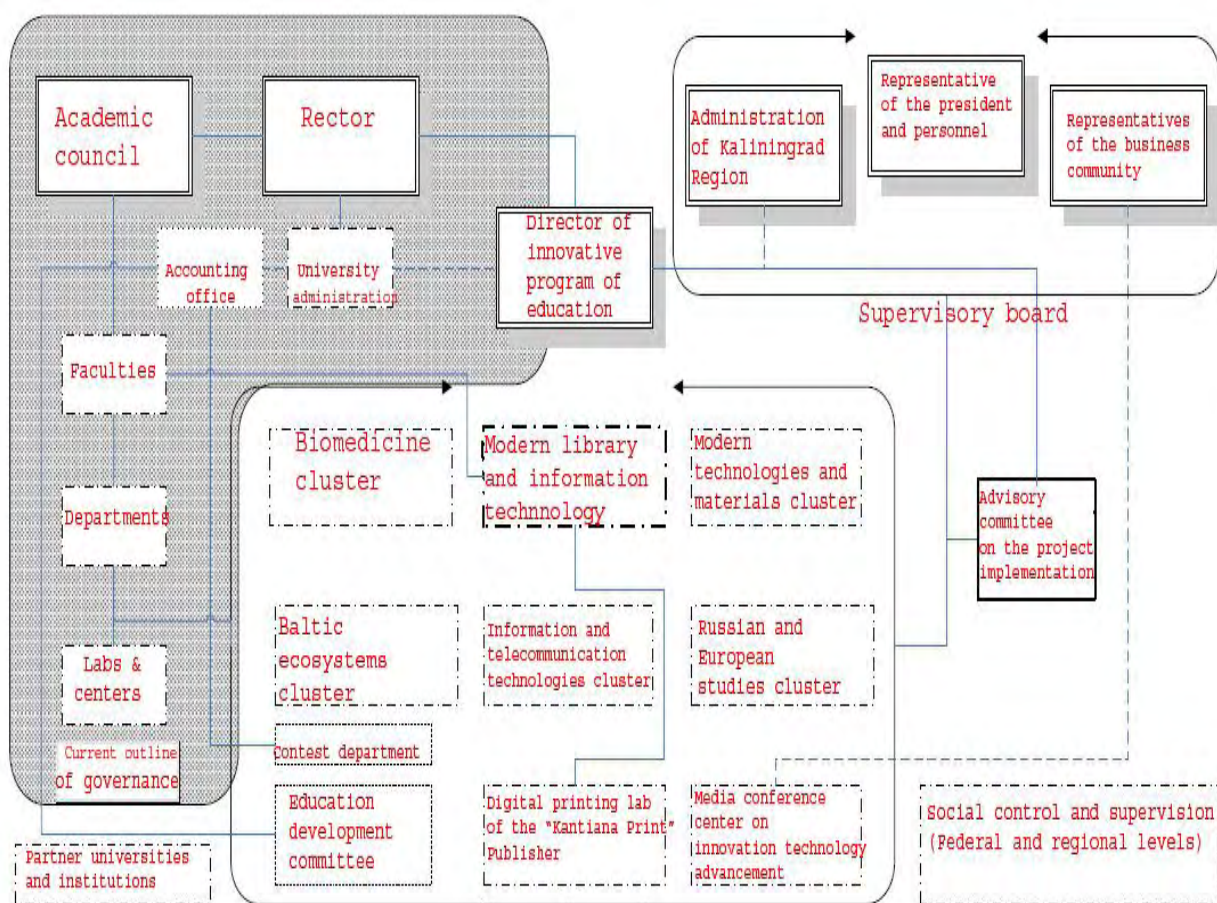


Figure 11. National Priority Project implementation scheme at IKSUR³⁶

The supervisory board that consists of the representatives of national and municipal authorities and the business sector is set up to make sure the project is being implemented accordingly. The supervisory board works in cooperation with the advisory committee and together they form a substantial part of the project implementation team. The operational level of the National Priority Project in HE is aimed at development of infrastructure across a wide array of programs that are relevant for the national and local aims. The main interdisciplinary priorities for IKSUR include: Russian and European studies; ICT; the Baltic ecosystems; biomedical technology and materials. The set priorities influenced and shaped the ways of financing the project, as most of the subsidy is aimed at the modernization of the infrastructure, especially purchase of equipment and renovation of lecture rooms.

³⁶ Also available in Appendix 4

5.2. Elements of strategic planning in the University

The current position of the main elements of governance of IKSUR, as follows from the previous sub-chapter, need to be altered in order to implement financial reforms in the University:

- State regulation has to decrease by means of changing the education law in the country. There is not much a University can do in this situation, but the previously discussed analysis of the current situation in Russia proves that the country is moving towards a more evaluative outlook towards public institutions. Hence, it is mostly a matter of time and preservation of the current course of social reforms, when the state will give Universities more freedom. But governments are likely to loosen insistence on extensive expenditure controls only if there is accurate and transparent information, competent and rigorous management, and extensive post audit.
- Stakeholder guidance must be much more visible in IKSUR. As market economy is rapidly developing, the University administration is turning to various markets and stakeholders for support and cooperation. These include national and local authorities, international organizations, private sector, students and society at large.
- Academic self-governance has to be minimized and held in balance with the administrative outlook to the extent that it is still possible to maintain the organization as a University and not a business entity.
- Managerial self-governance is the key in strategic planning. This is where the main load of transformations has to be applied. If management controls in IKSUR are absent, it may be that the institutional advantages to loosen expenditure controls from government are not worth the risk of losses to corruption.
- Competition for scarce resources, like buildings and facilities, will follow as a result. In recent years, a more aggressive marketing campaign has been set in motion by the University: IKSUR cooperates with other institutions, takes up various national and international projects, establishes connections with business sector, etc.

Environmental and institutional assessment of the University

Today Universities in Russia can choose how to organize their educational process, select and hire its own staff, organize its own research. In order to be able to do it in a strategic way, IKSUR has to envisage the changes, which will most certainly give it a priority over the rest of the public sector. An analytical outlook on the environment and internal situation of IKSUR is a prerequisite. It is necessary for the administration to have a clear picture of where the University is standing at a point in time. A simple SWOT analysis can help them with it.

Strengths:

- Public institution; classical University
- Infrastructure is improving rapidly
- The only HEI in the region to offer certain programs (medicine, sport, languages)
- Socially active students and staff
- The mission is in place
- Diverse organizational structure
- Prestige at the regional level

Weaknesses:

- Insufficient cash resources, hence, not enough facilities for development
- Scarce resources for the development of teaching; outdated educational technology
- Absence of strong marketing expertise and foreign languages knowledge
- Not enough connections with national scientific organizations and alumni
- Some elements of infrastructure are missing
- Insufficient amount of professional staff

Threats:

- Financial and economic crises can reduce demand
- Bad demographic situation and low quality of high school education mean less potential students
- Lack of young professionals who want to work in HEIs due to low wages
- Increase of online programs of other Universities
- Pricing war with regional institutions
- State focus on technical disciplines is a barrier for humanities and social sciences

Opportunities:

- Introduction of innovative programs to suit the needs of the region
- Usage of new distribution channels (e.g. online)
- Potential to diversify into related market segments
- Optimization of strategic development by means of the National Priority Project
- Growing business sector
- Change of attitude towards HE due to improvement of quality
- Public Universities are in crisis (hence a larger market share opportunity)

Education

New programs and methods of education have to be introduced in order to attract students. Although there has been a stable increase in the number of students at IKSUR and general increase of the population that enter HE, it is vital to search for new ways of attracting prosperous students, as their amount is bound to decrease due to the demographic situation in the country. As IKSUR has national accreditation, it is free to experiment with new methods. A large number of projects have been set up to introduce new methodological approaches due to establishment of new departments and programs. A recent successful project of such kind is an established interdisciplinary program in law and economics that is integrated into the European context. At the same time, large scale technological change makes HEIs re-think the content of their programs in order to integrate science and technology, like “Radio-physics and Electronics”, “Applied math and IT”, etc. A major restructuring of academic programs is needed. The University administration seems to realize that, as there have been major changes in curriculum of the programs; a lot of new programs have been established. A recent addition includes:

1. The department of Bio-ecology (established as a part of the National Priority Project)
2. The department of Medicine
3. The department of social work (added and merged with the department of Psychology)

The admissions campaign of 2007 at IKSUR became a record in the last decades: 6.6 to 1 ratio of candidates in the “budget” (no tuition fees) part of the programs, which is 11% more than in 2006. And this is despite a 20% decrease of high school graduates in 2007. Figure 12 offers a comparative data as to the amount of applications per year in a 4 years period.

Year	# of applications	# of entrants	entry ratio ("budget")
2007	11025	3918	6,6
2006	9300	3659	5,0
2005	6861	3194	4,5
2004	7350	3884	4,5

Figure 12. Information about admissions indicators in the University

Multidisciplinary programs have to be introduced by means of regrouping, merging and canceling some of the programs and introducing new ones. IKSUR must sustain its capacity to teach new fields and explore emerging areas of research, but economic pressures require that the growth be "by substitution" rather than by increment (Dill, 2000). The University has 14 departments; each has 4-6 programs. Until recently the University did not offer any interdisciplinary programs. The only exception was a TEPMUS TACIS project "Eurofaculty" that offers courses in European studies, law and economics. Since the implementation of the National Priority Project has begun, this issue is being resolved. Introduction of interdisciplinary programs in Russian and European studies, ICT, Bio-medicine, Modern technology and materials is one of the priorities of the project. It is necessary to establish connections between departments by letting students pick certain courses (introducing minors). Some "unprofitable" programs/courses can be kept if they are popular and/or required, and even decrease the tuition fees for them. A lower tuition fee does not mean that the University will be having economic loss, as the tuition fee does not need equal full cost of the course, but only variable costs traced directly to this very course.

International aspect should be taken into account. IKSUR has had an increase in the number of international students, mostly from the Baltic States, but the introduction of summer schools and other courses in English has given a boost to students from Western Europe. The International Relations Office coordinates and supports different forms of international cooperation. In general, these take the form of bilateral contact and formal agreements with Universities abroad, international networks of Universities, and European exchange programs for staff and students. Moreover, its regular contacts with international organizations ensure a close follow-up of new developments in the field of internationalization of HE. The office is responsible for strategy and planning in the field of international relations.

Research

It has to be prioritized after it has been put aside for many years. Realization of research projects in different fields of science is an important direction of R&D activity at IKSUR. The University is an active and enthusiastic member of a number of international research projects³⁷, like:

³⁷ See Appendix 5 for more information

- Baltic Centre for Advanced Studies and Education (BaltCASE). According to the University website, the main goal is to create an interdisciplinary professional group of Russian scholars and researchers, carrying out research in the field of international relations between Europe and Russia. The special attention is paid to the evaluation and introduction of new curricula and curricula modules in Russian-European studies and the development of regular and growing co-operation between HEIs (Projects, 2008).
- Cross-border cooperation in the sphere of science and technology and raising the role of Universities for the regional development are the major priorities for research activities at IKSUR. The University now actively participates in the application rounds for the co-financing from the European Regional Development Fund and TACIS (Projects, 2008).

Hence, the main problems that IKSUR faces are:

- Financial problems: including, but not limited to poor diversification of the funding base, lack of state financing of R&D, insufficient state financing of education, lack of accounting/financial expertise in the University administration, etc.
- Quality issues in education due to a large number of programs and insufficient number of qualifying academics, poor infrastructure, outdated educational technology, etc.
- External factors and economics of the country: emerging economy, unstable financial market, overdependence on the federal and local budgets, poor demographical situation, rivalry from other institutions in the region and abroad, etc.
- Lack of strategic approach to increase its market position by means of marketing research, professional personnel infusions, etc.

Major Goals to be achieved by IKSUR over the next 3-5 years:

- Sustain a stable increase of enrolments at market-oriented programs: more tuition-paying students means more financial resources for IKSUR. Maintain full-time staff and secure the position of a high-quality institution by engaging in R&D.
- Continue being involved with industry and other non-industrial institutions. In order not to stagnate the development, IKSUR has to have a diversified funding base in which one major stakeholder does not provide all income; to manage this, financial literacy

must be widely distributed and a degree of fiscal Puritanism should be encouraged. (Taylor, 2006)

- Become the innovative pro-active University; be aspiring in order to get on the “white” list of the federal government. The state will consider extra financing of the University activities once it regards it as an aspiring institution. Research has to be prioritized, but finance and quality crises have to be attended to first.
- Become a social actor and engage in the third most important function of any University- services to society. At this moment in time general public does not require the University to perform these functions as rigorously as educating people and doing research. But the mentality of people will change eventually: it is much better for the prestige of IKSUR to be pro-active in this sphere and pass ahead of the expectations of the Russian society.

5.3. Financial analysis of IKSUR

Financial department of the University administration should focus on preparing and analysing the University budget, making sure the funds are used efficiently. This includes overseeing preparation of operating budgets. In order to be able to do this, the personnel needs financial data that can only be acquired by means of financial analysis of the official financial reports. This information cannot be found in public access due to the fact that the Russia legislation prohibits Universities from disclosing detailed information about the accounts that the University has. By doing this, the state aims to keep HEIs away from making profit using University resources. This means that other ways of attracting investors have be sought. Despite scarce data available at the University web-site, it is still possible to have rudimentary financial analysis done.

Even a quick look at the official reports makes the reader see that the people behind the paperwork are not professional managers and/or financial specialists. The figures and schemes used in the reports require elaborate explanation, as the administration, for example, does not seem to be familiar with accrual accounting. All the transactions are reported only when the delivery has been made; hence, the cash outflow seems to be nonexistent throughout the year, and as most of the deliveries of lab equipment have

occurred in the end of the year, that is when the cash outflow has been recognized. This leads to distortion of expenses and income³⁸.

As seen in the next figure, although state financing seems to be increasing year by year, the situation is not that positive, once we look deeper into the numbers. If we take inflation into account and consider it to be, say 10 % (which is roughly the average inflation rate in Russia), we can see that it corresponds to a large amount of the increase. Another point of concern is that R&D financing from the public purse seems to be close to non-existent. This issue will be dealt with later in the thesis. Another point that illustrates business orientation and survival necessities of the University is its rapidly increasing (especially in the past several years) profit from business activities. In 2008 it is roughly equal to state budgeting of educational activities.

The source of Financial infusions	2004	The share in total financing (%)	2005	The share in total financing (%)	2006	The share in total financing (%)	2007	The share in total financing (%)	2008	The share in total financing (%)	2008 to 2004 ratio
Budget allocations for educational services	125,8	46,05	186,6	55,44	216,9	55,96	283,9	55,71	305,7	54,60	2,43
Budget financing of research	3,0	1,10	2,7	0,80	4,5	1,16	5,9	1,16	4,8	0,86	1,6
Profit from business activities	144,4	52,85	147,3	43,76	166,2	42,88	219,8	43,13	249,4	44,54	1,73
Total	273,2	100,00	336,6	100,00	387,6	100,00	509,6	100,00	559,9	100,00	2,05

Figure 13. The structure and dynamics of financial infusions in IKSUR (in millions of rubles)

³⁸ With the accrual method, the income is recorded when the sale occurs, regardless of when the payment is made. The accrual method offers a more accurate picture of the financial situation than the cash method. Income earned in one period is accurately matched against the expenses that correspond to that period, so there is a better picture of the net profits for each period (toolkit.cch.com).

The next figure presents the expenses of the University in 2008. An enormous amount of mathematical errors makes the reader not to take the data, presented in the reports, for granted, but to double check, if possible. I have highlighted some of the errors to illustrate irresponsible attitude of the University administration towards presenting the financial data to the public.

The expense	The article	Budget allocations for educational services		Business activities		Total	
		Millions of rubles	In %	Millions of rubles	In %	Millions of rubles	In %
Wages	211	116,6	38,14³⁹	86,29	39,00	202,89	38,5
Other salary payments	212	1,42	0,46	1,38	0,62	2,8	0,53
Pension fund taxes	213	29,2	9,56	20,08⁴⁰	9,03	49,28	9,35
Telecommunication expenses	221	2,01	0,66	4,26	1,93	6,27	1,19
Transport	222	0,12	0,04	6,63	3,00	6,75	1,28
Utilities	223	14,6	4,78	3,69	1,67	18,29	3,47
Lease payments	224	0	0,00	6,54	2,96	6,54	1,24
Maintenance expenses	225	21,99	7,19	28,67	12,96	50,66	9,61
Other services	226	15,61	5,11	39,74	17,96	55,35	10,50
Welfare payments	262	6,16	2,01	0,42	0,19	6,58	1,25
Other expenses	290	72,18	23,61	6,29	2,84	78,47	14,89
Equity increase	310	25,31	8,28	5,14	2,32	30,45	5,78
Material resources	340	0,5	0,16	12,22	5,52	12,72	2,41
Total		305,7	100,00	221,35⁴¹	100,00	527,05	100,00

Figure 14. The structure of expenses in IKSUR at 2008 (in millions of rubles)

One can only assume that those errors are the result of carelessness of the author of the reports or the person responsible for presenting the data; irresponsibility of the administration of the University⁴²; or an attempt to present falsified data. Either way, it is not acceptable for the University administration to allow such erroneous data for public viewing, as it may have serious consequences.

³⁹ In red is the corrected value (in %), instead of 38,13; 9,58; 4,77; 5,10; 23,60, as presented in official reports.

⁴⁰ Mathematical error: the value in the report is 19,98.

⁴¹ Mathematical error: the result in the report is 221,00.

⁴² The University is required to provide the public with official reports as a part of the “National Priority Project” implementation scheme, in order to achieve greater accountability.

Financial analysis is performed from several perspectives. The thing is that different groups of users of financial information⁴³ are interested in different aspects of the University's financial activities. Short-term creditors are interested primarily in the ability to make cash payments in the short term; they focus their attention on operating cash flows and current assets and liabilities. Long-term creditors, on the other hand, are more interested in the long-term ability to pay interest and principal and would not limit their analysis to the University's ability to make cash payments in the immediate future. The focus of common stockholders can vary from one investor to another. Each group may focus on different information in the financial statements to meet its unique objectives.

Objectives for financial analysis:

- Profitability;
- Efficiency;
- Short-Term Financial Strength;
- Long-Term Financial Strength.

Financial analysis procedure:

We are interested in current, past, and future information. There are four common comparisons:

- Ratio analysis⁴⁴;
- Trend analysis;
- Component percentage analysis;
- Absolute amount change.

Absolute amount changes and trend percentages are tools for comparing information from successive time periods. Component percentages and ratios, on the other hand, are tools for establishing relationships and making comparisons within an accounting period. Both types of comparisons are important in understanding the University's financial position, results of operations, and cash flows.

⁴³ Usually presented in the form of annual financial statements

⁴⁴ Due to lack of necessary financial data, this part of the analysis cannot be presented in this thesis. See Appendix 6.

1. Absolute amount changes

This part of the financial analysis is going to show us relative changes of funding of a chosen year in comparison with the previous one, i.e. by how much (in per cents) funding has increased/decreased in comparison with the previous year.

Budget allocations for educational services:

Year 2005 over year 2004 Year 2004 = 100% Year 2005 = $(186.6 - 125.8) / 186.6 = 32.6 \%$	Year 2007 over year 2006 Year 2006 = 100% Year 2007 = $(283.9 - 216.9) / 283.9 = 23.6 \%$
Year 2006 over year 2005 Year 2005 = 100% Year 2006 = $(216.9 - 186.6) / 216.9 = 14.0 \%$	Year 2008 over year 2007 Year 2007 = 100% Year 2008 = $(305.7 - 283.9) / 305.7 = 7.1 \%$

Budget financing of research:

Year 2005 over year 2004 Year 2004 = 100% Year 2005 = $(2.7 - 3.0) / 2.7 = -11.1 \%$	Year 2007 over year 2006 Year 2006 = 100% Year 2007 = $(5.9 - 4.5) / 5.9 = 23.7 \%$
Year 2006 over year 2005 Year 2005 = 100% Year 2006 = $(4.5 - 2.7) / 4.5 = 40.0 \%$	Year 2008 over year 2007 Year 2007 = 100% Year 2008 = $(4.8 - 5.9) / 4.8 = -22.9 \%$

Profit from business activities:

Year 2005 over year 2004 Year 2004 = 100% Year 2005 = $(147.3 - 144.4) / 147.3 = 2.0 \%$	Year 2007 over year 2006 Year 2006 = 100% Year 2007 = $(219.8 - 166.2) / 219.8 = 24.4 \%$
Year 2006 over year 2005 Year 2005 = 100% Year 2006 = $(166.2 - 147.3) / 166.2 = 11.4 \%$	Year 2008 over year 2007 Year 2007 = 100% Year 2008 = $(249.4 - 219.8) / 249.4 = 11.9 \%$

All sources of financing combined:

Year 2005 over year 2004 Year 2004 = 100% Year 2005 = $(336.6 - 273.2) / 336.6 = 18.8 \%$	Year 2007 over year 2006 Year 2006 = 100% Year 2007 = $(509.6 - 387.6) / 509.6 = 23.9 \%$
Year 2006 over year 2005 Year 2005 = 100% Year 2006 = $(387.6 - 336.6) / 387.6 = 13.2 \%$	Year 2008 over year 2007 Year 2007 = 100% Year 2008 = $(559.9 - 509.6) / 559.9 = 9.0 \%$

According to the analysis of absolute amount changes, the state allocations for education are steadily decreasing if we compare a chosen year to the previous one: although the funds allocated by the state seem to be increasing year by year, their percentage change is steadily going down. The state financing of research in 2008 fell below the level of 2007, which shows lack of priorities in R&D set by the current government. Profit from business activities is increasing, with a slight decrease in 2008. This is graphically illustrated in figure 15.



Figure 15. Consolidated data on University income

Although the graph shows a visible increase of both state financing of education and profit from business activities, the relative increase of one year in comparison with the previous one is diminishing in some cases and increasing in others. This instability is a criterion of emerging economy and rather instable political and social priorities in the country.

2. Trend percentages

Trend analysis requires that we have more than one year of financial information. It is a comparison of the relationship of one item for more than one year. It is also known as horizontal analysis and can be used to analyze any item. This part of the analysis is going to show relative increase/decrease of funding in several successive years. Year 1 (which is 2004) is set as 100 %, a certain benchmark if you will, and other years are compared to it.

Budget allocations for educational services 2004=100% 2005 = 186.6 / 125.8 =148.3 % 2005 = 100% 2006 = 216.9 / 186.6 = 116.2 % 2006 = 100% 2007 = 283.9 / 216.9 =130.9 % 2007 = 100% 2008 = 305.7 / 283.9 =107.7 %	Profit from business activities Year 2004=100% Year 2005 = 147.3 / 144.4 = 102.0 % Year 2005 = 100% Year 2006 = 166.2 / 147.3 = 112.8 % Year 2006 = 100% Year 2007 = 219.8 / 166.2 = 132.2 % Year 2007 = 100% Year 2008 = 249.4 / 219.8 = 113.5 %
Budget financing of research Year 2004=100% Year 2005 = 2.7 / 3.0 = 90.0 % Year 2005 = 100% Year 2006 = 4.5 / 2.7 = 166.7 % Year 2006 = 100% Year 2007 = 5.9 / 4.5 = 131.1 % Year 2007 = 100% Year 2008 = 4.8 / 5.9 = 81.4 %	All sources of financing combined Year 2004=100% Year 2005 = 336.6 / 273.2 = 123.2 % Year 2005 = 100% Year 2006 = 387.6 / 336.6 = 115.2 % Year 2006 = 100% Year 2007 = 509.6 / 387.6 = 131.5 % Year 2007 = 100% Year 2008 = 559.9 / 509.6 = 109.9 %

The results are as follows: budget allocations for education as well as profit from business activities increase in 2005-2007, but drastically decrease in 2008. State allocations for research are going up and down during all the analysed period. The same happens, once we combine all the sources of funding. The conclusion is the same as of the previous part of the analysis: the economic, political and social environments in the country do not allow for riskless predictions of the University financial situation even in the short-run, due to instability of funding.

3. Component percentages

Component percentage analysis is the percentage relationship between one financial statement item and the total that includes that item. This is also referred to as vertical analysis. The results of this part of the analysis are presented in figures 15-16⁴⁵. State financing of education takes up around 55-56 % of total University funding, whereas private funding occupies 43-44%. State funding of R&D never goes beyond a 1 % barrier.

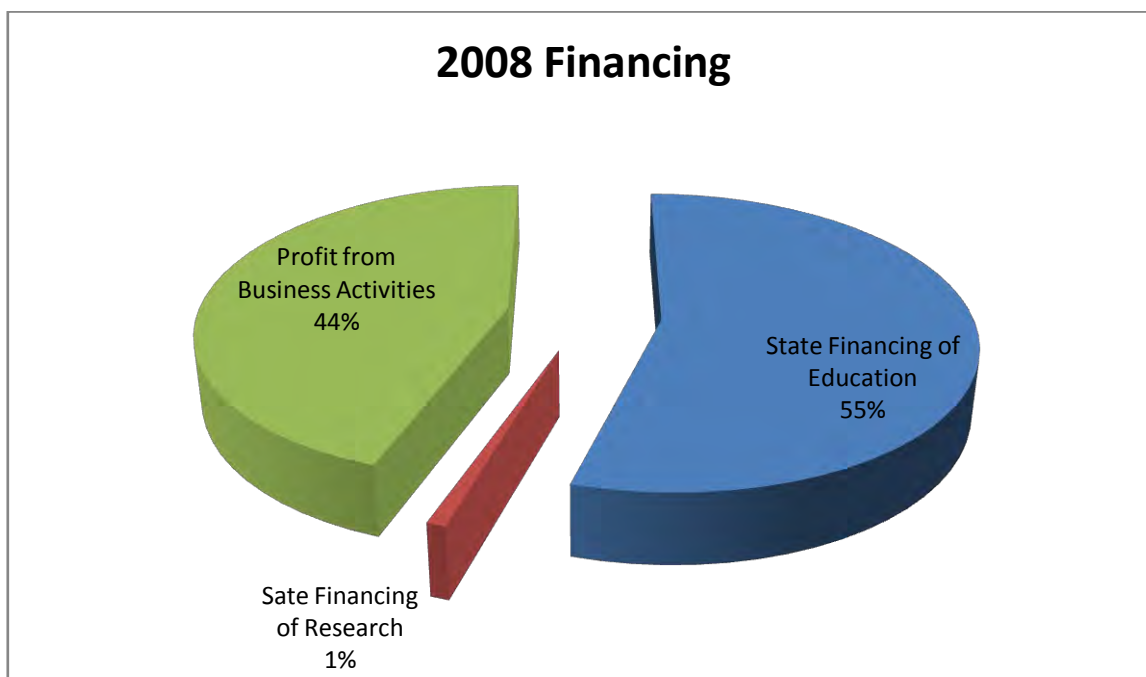


Figure 16. IKSUR financing in 2008

⁴⁵ The result of the analysis of the previous years can be found in Appendix 6.

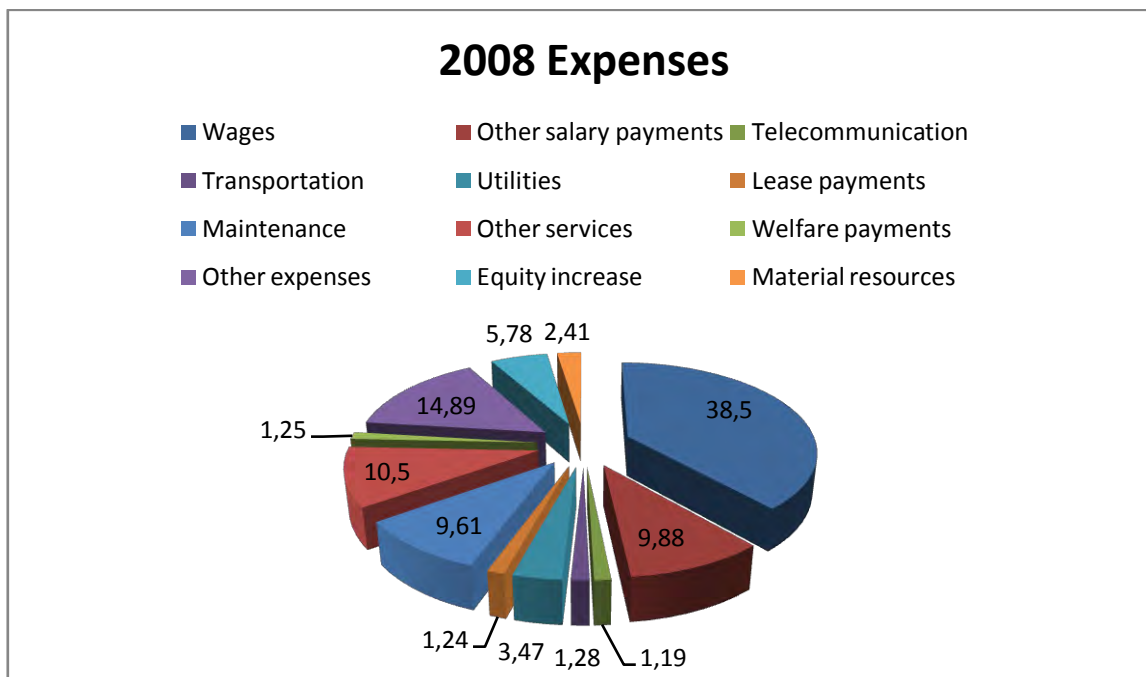


Figure 17. IKSUR expenses in 2008

5.4. Strategies to solve financial issues

So far I have concentrated on the big picture, but change in Universities cannot be implemented entirely from the top; a bottom-up approach suits better. Following Clark (Clark, 1998) I identify strategies that units at IKSUR have to apply for the whole University to achieve progress

- Diversify income to increase financial resources; raise money, choose among specialties, and otherwise take on an entrepreneurial outlook
- Increase profit from non-operational activities: rent out premises, attract students and non-students to use cafeterias, establish a bookshop. Make capital budgeting decisions based on NPV⁴⁶. Establish marketing department and involve professionals.
- Attract international students (arrange English programs) and charge them higher tuition fees (economic disadvantage can be used as advantage for the HEI), which will still be lower than what they would pay in Europe; introduce competitive programs.

⁴⁶ Net Present Value. It is aided by the sensitivity analysis, scenario analysis and break-even analysis.

- Arrange short-term courses for extra leverage, summer courses are one option. The University pays fixed costs no matter what, so it is vital to use the premises to the fullest even during school breaks. Attract some famous professors, even if just de jure. Use their names for the marketing purposes. Promote the Russian language to European students.
- Increase market share: customer satisfaction is the key, don't cancel the courses because of insufficient number of students, even if unprofitable, it will help avoid bad reputation (use the metrics, like CSI⁴⁷ to see where IKSUR is standing; measure the profit impact of customer dissatisfaction and retention).
- Provide discretionary money, and reduce governmental dependency
- Attract venture capital (use the advantages of emerging economy) in order to get some leverage that can be invested into, say, marketing, increasing wages to the full time staff and attracting international professors. International staff is very important for attracting foreign students; of course, rewarding the national staff for learning English will not be a waste of resources either.
- Find a partner with a good reputation, preferably an international one, conduct conferences and student/teacher exchanges. Use all opportunities to get grants; join multiple programs; use the best students to promote the University. Establish a good connection with the business sector (internships on site; applied research). Introduce correspondence programs to avoid overcrowded classrooms and decrease the professor/student ratio; rent premises, especially dorms for international students.
- Develop new units outside traditional departments to introduce new environmental relationships; convince heartland departments that they too can look out for themselves
- Establish a unit for marketing and advertising: people have to know about the University, especially abroad. It is possible to make academics, say, from economics and business department, work part-time in the administration. This way IKSUR gets a two-in-one deal: an academic and a business-oriented professional to combine both streams into one in order to avoid academic distress by letting an outsider set the

⁴⁷ Customer Satisfaction Index

rules. A changing environment requires an appropriate response, which is cooperation. Examples of these kinds of cooperation of IKSUR can be found in Appendix 5.

- Train the personnel (knowledge creation and transmission are important, but IKSUR needs to have resources to be able to do so), increase marketing knowledge and business awareness of the staff. It is important to have academic "intrapreneurs" and the structures and constraints need to be loosened to enable them to flourish. (Shattock, 2005)
- Evolve a set of beliefs to guide the structural changes and provide a stronger response capability;
- Invest into branding (the University changed its name as a part of its strategy) Kaliningrad State University vs. Immanuel Kant State University of Russia: nobody knows Kaliningrad, but people know Russia and Kant). Choose names that sound good in all languages. According to the strategic managerialists, being a great academic with a good understanding of business principles is not a contradiction in terms. (Kulati, 2002).
- Build a central steering capacity to make large choices that help focus the institution.
- Decentralization of decision-making and responsibility to academic departments is to be done. Executive power has to be transferred to individual academic leaders, the Rector and the heads of departments (Hölttä, 1997). In the case of IKSUR, the Rector is both an academic and administrative leader. Some Universities in Russia have already introduced the position of the President, following the changing conditions in HE management.

Consolidated steps of strategic planning, implementation and assessment can be found in Appendix 7. It is extremely important to set key strategies and not confuse them with collateral ones, which are only the means of achieving the strategic plan implementation.

5.5. Discourse Analysis of official reports

When introducing the University, the author of the official reports, Gareev, outlines that the number of current students has almost doubled in the past ten years, thus making it a criterion of prosperity of IKSUR and the only distinguishing feature worth pointing out in the first lines of the paper. Nonetheless, the author does not elaborate on the reasons behind this increase. The most probable reasons being the overall growth of population in the region due to the policies of migration in Russia; overall awareness of the necessity of HE amongst general public; increase in the numbers of international students due to the more or less stabilized economic/political situation in the country. None of those point to the University doing something strategic in order to attract students, which, of course, cannot be the case.

One thing that IKSUR is involved in is diversification of its educational services. IT and technological innovations are a part of the process of teaching and learning, due to radical changes in syllabi. This should lead to the increase of numbers of prosperous students; but this is where the strategic planning is not being implemented. The number of programs and the amount of students has been increased, but the administration didn't think that this would lead to lack of lecture rooms in the University. This could have been envisaged, but it seems that the administration is more interested in the quantitative growth, not in qualitative. But then again, the author explicitly states that IKSUR employs the strategy of development, which has helped the institution implement innovative approaches in humanities. This is a reasonable way for the University development, as the USSR Universities were not stressing the social aspects, but rather scientific and technological. Thus, concentration on social sciences will help balance the academic comprehensiveness, even despite the state prioritizing a more technical sphere.

The author outlines that the administration favours competitiveness: the resources are distributed based on the competitive characteristics of different units. The levels of competitive spirits are expected to grow in the following year. Of course, competition goes along with conflicts. Role conflicts are resolved at the highest level: the Rector is responsible for that. So far more than half of the staff working for IKSUR is in some way involved into realization of the project. The author highlights that there exists a curious model of competitive cooperation within inter-departmental area, which leads to a rapid growth of the number of applicants in the departments. The University also uses the "negative" incentives,

like sanctions against using the extra funding for the needs of the unit if the unit doesn't meet a deadline. Thanks to acquired competencies and new equipment, one can expect the raise of the capabilities of IKSUR. The potential of inter-disciplinary research in natural sciences has grown substantially, proving the possibility of cooperation not only within a single cluster of innovative technology but also between clusters.

Comparisons of real data with the planned ones allow us to make several curious comments. First, it is possible to notice a common tendency towards the growth of the indicators of innovative activity. Secondly, due to the implementation of the project, IKSUR almost completely rejected outsourcing in R&D. This basically means that the research teams have got all the equipment they need for pursuing their goals. Thirdly, there is a tendency towards smaller amounts of international projects and grants, which is overly compensated by the Russian ones. This tendency not only shows the substitution of external resources with national ones, but also the shift in the thematic areas of research. To all appearances, there is a transition of interest in social sciences and humanities towards natural sciences. The appropriateness of this conclusion is implicitly proven by the increase of potential students' interest towards "scientific" disciplines.

It is also worth noticing that there is a high correlation between financing of the project and the number of young specialists who are involved into the project. An important psychological aspect of the program is the increase of master and PhD students' interest in lab functioning.

Year	Amount (Thousands Of Rubles)	Financed by:			The percentage amount of R&D, %
		The Ministry of Education	Russian Fund of Basic Research, Russian Humanities Fund	Other national Sources	
2004	7 849,5	3 988,5	969,2	2 891,8	46,5⁴⁸
2005	10 058,9	2 659,5	3 211,5	4 187,9	54,3
2006	10 943,2	4 459,0	4 559,2	1 925,0	63,1
2007	12 567,1	5 857,7	3 914,0	2 795,4	51,6
2008	12 950,4	4 736,0	5 023,8	3 190,6	52,3
всего	54 369,1	21 700,7	17 677,7	14 990,7⁴⁹	53,4

Figure 18. R&D financing in the University

⁴⁸ The date presented in the report is 45.7; 54.3; 44.3; 49.7, which is erroneous.

⁴⁹ There is a mistake in the calculations presented in the reports, as the final amount is 14,990.70, and not 12,990.70 as presented in the report.

Despite arithmetical errors in the report, the constant increase in financing of R&D leads to a stable growth rate of R&D projects performed by the University, as seen in the next figure.

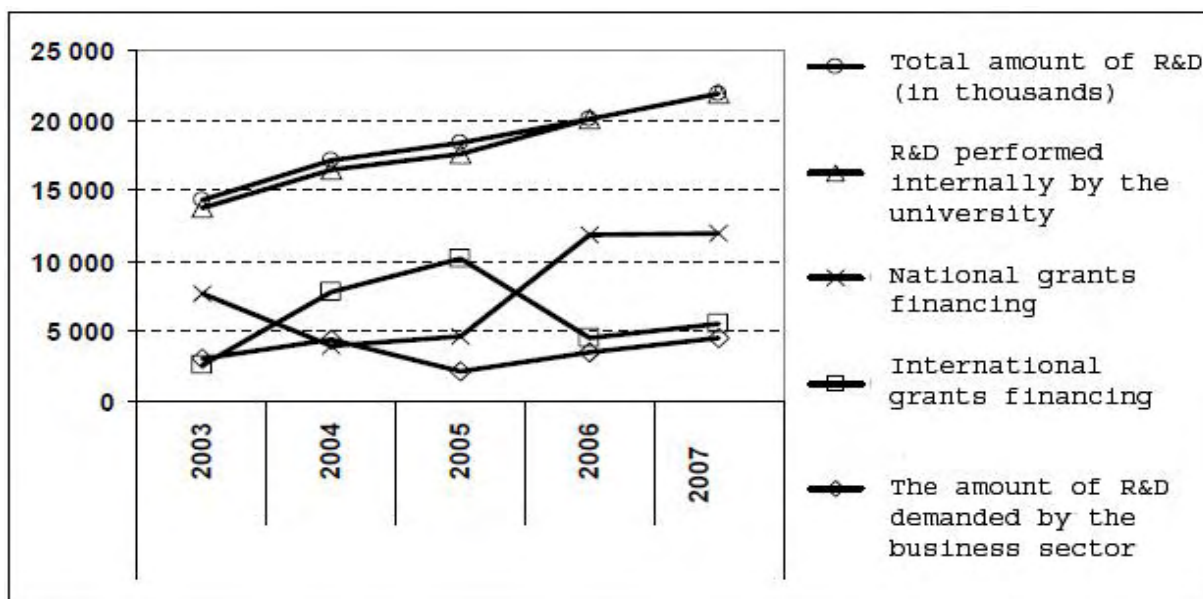


Figure 19. Efficiency of R&D and innovative activity in the University

The next two figures present the situation around other sources of R&D financing in the University in a historical perspective. The Ministry of Education and other funds and organizations correspond to roughly half of the total financing, the other half being shared approximately in an even proportion by the state and private sector and foreign sources.

Year	Amount (Thousands Of Rubles)	Financed by:		The percentage amount of Federal, Municipal and private financing of R&D in total amount of financing of R%D , %
		Federal and municipal budgets	Private sector	
2004	4 456,5	2 237,2	2 219,3	26,4 ⁵⁰
2005	2 526,0	1 169,0	1 357,0	13,6
2006	3 553,2	1 525,0	2 028,2	20,5
2007	6 457,0	3 000,0	3 457,0	26,5
2008	3 528,5	1 210,0	2 318,5	14,2
всего	20 521,2	9 141,2	11 380,0	20,1

Figure 20. R&D financing by means of Federal and Municipal budgets and private sector

⁵⁰ The data in the reports are 25.9; 17.6; 12.1; 18.7, which is erroneous.

Year	Amount (Thousands of Rubles)	The percentage amount of R&D, %
2004	4 562,9	27,1 ⁵¹
2005	5 939,1	32,1
2006	2 854,7	16,4
2007	5 318,6	21,9
2008	8 309,0	33,5
Total	26 984,30⁵²	26,5

Figure 21. R&D Financing by means of foreign sources

The rapid decrease of foreign financing in 2006 corresponds to a decrease of R&D projects performed on the basis of international grants, thus proving that contingencies play a great role: geographical location of the University, cultural values of the nation, academic identity, etc. some of them can be easily predicted and taken into account during the planning stage; whereas others, if accounted for before implementation, make the whole planning useless. One of the problems with governmental financing in Russia is that payments and subsidies never come on time, and since the University budget heavily relies on state financing, huge amendments and delays have to be dealt with as they appear. Hopefully, in the future the management of the University will find a way to start an emergency fund, as one can never count on the government and the market in the emerging economy.

The second quarter of the year, which is the first period of active implementation of the project, shows constant delays. Some contingencies were not taken into account when making plans of the project implementation. The fact that it takes two-three weeks for mail to reach the addressee and then go back to IKSUR seems to surprise the administration, whereas the mere fact that the University is located in the enclave region of the country, at a distance from any other Russian city, and that all national mail goes through the capital of the country is completely neglected. The author says that this fact should have been, possibly, taken into account at the stage of planning. Later in the report the author refers to an outcome that turned out to be positive. This in no way correlates with the strategic outlook and has to be attended to accordingly.

⁵¹ The data presented in the reports are 26.5; 14.2; 21.8; 28.4; 24.7, which is erroneous.

⁵² There is a mistake in one of the "amount" cells, as the total amount should be 26,984.30 instead of 27,047.30 as stated in the reports.

Planned results of the project include the increase of the number of prosperous students, but the rates of this increase were unexpected, especially if one takes into account the decrease of the age cohort due to a demographic crisis of the end of the eighties- beginning of the nineties. The campaign to bring in more paying students also showed unexpected results. Despite the big amount of private HEIs in the region, the indicators here also improved.

The main unexpected results are connected with an increasingly active governmental politics in the sphere of science and education. The University will continue to be subsidised by the government within the framework of development of nanotechnology in Russia. On the operational level, unexpected results are connected with 5.5 million rubles of the subsidy saved. This allowed the University to purchase extra sets of equipment and redistribute money among various activities. Purchase of equipment of famous brands involves an extra marketing bonus, which is positively related to communications with the business sector. The manufacturing companies supply extra materials, shareware and offer consulting services free of charge.

The project served as an instrument for distinguishing pro-active academics and educators who are capable of raising valid issues and implementing projects of small scale on their own. The project also allowed the University to substantially increase the percentage of the programs (up to 30%), that are in accordance with the Bologna Declaration. More than 30 new educational units that are compatible with the requirements of distance learning have been put into implementation. This is expected to lower the deficit of lecture rooms and increase the share of individual learning, as well as attract international students.

The author of the official reports gives a comprehensive picture of how the organizational structure helps the implementation of the project. Some points though, are quite curious. The author claims that there is a constant monitoring/control of all the activities within the project, but then adds: when notifications about delays and miscellaneous troubles are given by various units involved into the project realization. Either the delays and problems are constant, or the author is trying to cover the fact that the monitoring is constant only on the paper. Later in the report the author refers to a “news block” that may be later used for monitoring the results. This kind of formulations is not accepted in official reporting and can be used to make the references to the events vague and ambiguous in order to avoid responsibility.

On numerous occasions the author presents self-evaluation of the project implementation. The evaluation ranges from satisfactory to rather acceptable. At the same time the author tries to take the blame for some events and actions away from the University, by referring to an unexpected increase in the prices of lab furniture or decrease in the numbers of students who pay tuition fees, etc. Some elements of the project implementation are referred to as rather difficult, hence the discrepancies between the planned and real outcomes.

The immediate internal results of the National Priority Project include:

- 65 new courses have been introduced;
- 30 new programs (Bachelor and Master levels) have been established due to the demands of the regional market;
- More than 400 courses have been conducted to raise the skills of the academic and administrative personnel;
- More than 4.5 thousand square meters of lecture halls have been modernized.

The most important socio-economic outcomes⁵³ of the project realization in 2007-2008 are:

- A regional association of HEIs of the Kaliningrad region “University educational circle” has been established. It allows for collaboration among HEIs;
- 26 science centers and labs have been equipped with up-to-date technology;
- 12 structural labs and centers have been merged within the established “park of innovations”;
- The infrastructure of the new Medical School (including modernization of the buildings and equipping the diagnostics center) has been brought up-to-date;
- 20 professional medical specialists have relocated to the region in order to work in the new Medical School;
- ICT centers of Cisco, Microsoft, Prometric testing center, etc. have been established;
- Buildings and infrastructure for establishing a regional science and education center of nanotechnology have been prepared and accounted for;
- The media conference hall has been renovated and can host 40 conferences annually;
- Connections with the business sector (mainly science related companies and entities) have been re-established.

⁵³ Those that influence the market position of the University and the region.

CONCLUSIONS AND DISCUSSION

The aim of this thesis was to analyze the budgeting strategies and internal efficiency of a University that participates in a National Priority Project implementation. The Immanuel Kant State University of Russia (IKSUR) was chosen as a case study in order to analyze its financing strategies and budgeting. I have aimed to show that a more economic and financial approach can be implemented, to offer some changes of the budgeting strategies and have discussed the effects that can be achieved if a more strategic development plan is put into action. The starting point of the case study was a characterisation of IKSUR, including an analysis of its internal and external environments. Those dimensions proved to be relevant for successful implementation of the National Priority Project. The next step was financial and discourse analyses: implementation of the project, its current results.

A partially state-controlled environment presupposes a unique organizational structure and lack of profit orientation; it makes it hard for Universities to support change and allocate the financial resources to whatever is seen as a priority by the University itself. This situation leaves no other way out but to seek other sources of revenue, besides the governmental support. A diversified-funding base of IKSUR shows that the University management pays attention to its stakeholders in order to overcome financial dependence on the state. But the realities of emerging economy don't let the University administration make any predictions for the long-run. The changes in the University environment are considerably dependent on the political situation in the country. At this point in time, the national government is willing to support HEIs as long as they show their willingness to develop themselves and serve the society.

The IKSUR strategy of development is oriented towards outcomes and efficiency through better management of public budget. The extent to which they succeed cannot be determined as of yet, as it will take a certain amount of time for the administration to learn by doing. It is considered to be achieved by applying competition, emphasizing economic and leadership principles. IKSUR is definitely going the right way, but the administration is not always aware of the consequences of some actions and is not able to create possible scenarios. The IKSUR doesn't have external consultancy when it comes to strategic planning; the Rector is the leader who approves strategic movements. It is advisable for IKSUR to have an external

consultant who would create an organizational plan and outline the main issues and ways to overcome them. At this moment the strategic plan is implemented in a decentralized manner, there are no clear procedures, as it depends on numerous variables, like the budget. The main problems in connection with strategic planning include lack of finance, hence, lack of qualified personnel to do the planning. Insufficient number of professional personnel leads to not well thought through strategic decisions and constant awareness of lack of finance leads to cuts and economy as the main determinant is declining/accepting a decision.

The thesis discussed some of the main issues that any University in Russia has to cope with. Fortunately, some of the issues can be resolved at the institutional level, despite the fact that the legislation is still not in tune with the development of HE in the market economy and lump-sum budgeting is nonexistent. The lack of adequately developed effective systems for quality management of professional training and evaluation of that training has been prioritized and the management of IKSUR has allocated a substantial amount of finance to staff training. A situation of competitive cooperation has been created at IKSUR during the implementation of the National Priority Project. As for the external environment, IKSUR has proven to be taking competition seriously by, first, making itself a leading University in the region and rigorously cooperating with partner Universities in the Baltic Sea region. A stable increase in enrolments shows that the strategy of development that IKSUR has been implementing works, at least when it comes to attracting potential students and establishing the reputation of a comprehensive University.

The main criterion of internal efficiency of the University is profitability of its operational and non-operational activities. The necessary conditions of successful implementation of the budgeting system are partially present in IKSUR:

- Managerial accounting system is not well organized: multiple mathematical errors in financial data; insufficient amount of data to be used by external stakeholders; rudimentary accountability, etc.
- System of expense accounts control is satisfactory: the National Priority Project was implemented within the budget.
- The organizational structure of IKSUR is based on separation of responsibilities according to the levels of governance and management.

The National Priority Project is an efficient way of stimulating the HE development:

- In the situation of decreasing governmental support⁵⁴, universities are being offered an opportunity to get extra financing by implementing a project of their choice⁵⁵.
- State financing of research is almost non-existent; whereas the project allowed IKSUR to invest into R&D within the framework, dictated by the state. The investment is not done into R&D per se, but into new lab equipment and modernization of infrastructure.
- There is a stable increase in enrolments, partially due to increased attractiveness of IKSUR among prosperous students due to its participation in the project.
- The budgeting is being paid much more attention due to required accountability and increased state control; strategic outlook and unstable economic situation in Russia.
- In order to be noticed by the state as an institution worthy of financing further, the University management has to look for ways of increasing internal efficiency.

The National Priority Project is a means of increasing the University self-governance and applying a more strategic approach to its budgeting by means of targeted financing by the state:

- Due to delegation of administrative responsibilities;
- Interdepartmental competitive cooperation;
- Effective incentives structure;
- State required accountability.

The National Priority Project can help aspiring Universities increase their internal efficiency and competitiveness.

- Increase of the amount of R&D done due to increased financing and research prioritizing;
- Increase of R&D financing by means of non-state sources due to increased attractiveness of the University to the business sector;
- Diversification and modernization of programs that attract more prosperous students;
- Increased level of professional competencies of the academic and administrative staff.

⁵⁴ According to the analysis of absolute amount changes, the state allocations for education in IKSUR are steadily decreasing: although the funds allocated by the State seem to be increasing year by year, their percentage change is steadily going down.

⁵⁵ The selection of the Universities involved competition, thus, encouraging HEIs to use all of their human capital in order to be selected by the State.

Based on the overall analysis of the National Priority Project in IKSUR, the conclusions are:

- The project is considered to be effective and efficient. All the planned activities have been realized within the available budget. All the planned purchases have been done with a 5 % economy, which made purchase of extra lab equipment possible.
- The structures and contents of the National Priority Project in IKSUR comply with the state regulations. The conditions of the project implementation allow for quality education process, as has been established by the analysis of the final examinations of the recent graduates. The system of the project organizational structure is quite optimal.
- The modernization strategy is constantly being implemented due to a cluster of innovative sub-projects, which implementation involves all the programs interested.
- The quality assurance system complies with national and international requirements and included monitoring and evaluation of the main educational aspects. The quantitative indicators of human resources in the University are above the set norms, the qualitative are not yet there.
- R&D got a long-awaited boost due to the project: research is being done in 35 scientific disciplines. The growth of the volume of R&D in 2004-2008 has been 170.1 %. The post-graduates studies are being implemented in an efficient way. The efficiency criterion has gone 37.5 % up in the past 5 years. The number of post-graduate students has increased by 1.4 times.
- The infrastructure is significantly modernized and renovated due to new buildings and acquisition of new land; purchase of new and sometimes unique equipment (strictly within the framework of the project); modernization of lecture halls; etc.
- Financial position of the University is regarded by the administration as stable and satisfactory, but according to the financial analysis in the thesis cannot be considered as such.

Based on the results of the analysis, here are some proposals for further development of IKSUR in order to increase its internal efficiency:

- Introduction of a more transparent governing structure by means of IT and analytical systems of governing and documents circulation; merging of chairs and departments;
- Further diversification of educational programs by means of the increase of the number of engineering and technical departments and the number of Bachelor programs;
- Activation of marketing strategies of acquiring prospective students; introduction of a better advertising and PR campaigns⁵⁶ in order to overcome the environmental threats⁵⁷;
- Creation and introduction of an e-system of monitoring the library resources; acquisition of library materials in order to reach the minimum level required by the Ministry of Science and Education; increase of availability of e-resources to reach the level of a fundamental e-library;
- Keep on working on creating and modernizing study materials; development of an online learning platform; a wider usage of multimedia resources and tools within the education process;
- Reducing student/ staff ratios; introducing online modules; reviewing teaching methods to increase independent study; reducing the high number of lecture hours.
- Approbation and usage of quality assurance system that consists of:
 - a) the system of internal monitoring of academic and administrative personnel work satisfaction;
 - b) the system of evaluation of educational programs and program units;
 - c) the evaluation of professional competence of academic staff;
 - d) the model of independent evaluation of students' achievements;
- Development and realization of methods of increasing professional levels of academic personnel, which is below the state level; restructuring of chairs in order to achieve full transition to double-level system of education.

⁵⁶ Information campaign in schools in order to advertise HE; free preparatory courses; campaign to increase prestige and advertise quality of education, etc.

⁵⁷ Decrease of High School graduates, increase of rivalry in the region, new rules of admissions in the country, etc.

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APPENDICES

Appendix 1: Overview of the Russian system of HE

The Ministry of Education and Science

The Ministry was founded in 2004 by merging of the Ministry of Education with the Ministry of Industry, Science and Technology. Therefore, education is just one of the branches. One of the priority national projects in the country is devoted to education; and according to the Ministry of Education and Science, the state support of the HEIs is one of the angles of the project. It is aimed at a speedy modernization of the institutions, introduction of educational programs of higher quality, integration of education and science as well as the establishment of new financial and managerial mechanisms in Russian Universities. In 1999, Russia signed the Bologna declaration and now, almost a decade later, we are witnessing the process in action. According to the former Minister of Education, Russia would have to introduce the two-fold system of HE; provide the establishment and accreditation of Universities and introduce the credit system.

The Russian Federation got itself ready for joining the Bologna process:

- Modern legislation gives the possibility of realization of the multi-step system of HE.
- There are experiments in some Universities to introduce the credit system. This innovation allows a wider spread of distant learning.
- The state system of evaluation of the quality of HE is being constantly improved alongside with the creation of the inter-University system of the quality management.

The structure of HE

In 2007 it was officially announced that the system of HE in the country was going to be changed in September of that year. The reason behind this change lies in the fact that Russia has no other choice but to integrate into the European educational domain. Some Universities in big cities have already transferred their “Specialist” program (a five-year old program that allows a further post-graduate study) into a Bachelor (3-4 years) and Master (1-2 years) programs. It does not mean that the “Specialist” degree is going to disappear, at least not yet. So when it comes to the structure of HE in Russia, it is ambiguous at the moment: it will take some time to make new mechanisms run smoothly.

According to a representative from the Ministry of Education and Science, in 2006 the number of students in Russia was even higher than in the USA: 245 students out of 10,000 people against 234 in the USA. Some people predict that by 2010 Russia will have 5.8 millions of students which is twice as much as in 1992. At the moment the quota of tuition free HE equals the number of High School graduates, which means that in theory everyone can study for free.

Russian education nowadays is what it is mostly due to the foundations laid down during the Soviet times. The main features of the USSR education are:

- It was tuition-free for everybody
- The selection was based on the success of the entrance exams
- Students were provided with scholarship and free housing

This system allowed selection based on aptitude, the results of the entrance exams were used to accept the most skilled students. This is a great feature of the Soviet educational system that allowed many citizens to get their “Specialist” diplomas free of charge. After the collapse of the Union, the Universities underwent some changes: they had to learn how to survive on their own as the state had more urgent dilemmas to attend to.

The financial basis of the Universities

At the moment the state continues to fund HE, although the budget cannot cover all the costs and Universities have to find other ways of funding themselves. The Soviet system of selection by aptitude has been preserved: the entrance exams are still necessary. But the difference is that those who didn't do very well on their exams still have a possibility to study in this very University, but at the so-called “tuition-fee” department. Hence, every department has a group of students that don't pay any tuition fees and a group that has to pay. There is a chance to transfer from the paid department to the tuition free one, provided that the student shows his/her ability, knowledge and skills and that there appears to be a vacant place.

Financing of state Universities is not linked to the employment possibilities of the graduates whatsoever. This issue is vital for the business: companies need well-educated graduates. But the problem with the quality of education is directly connected with financing: a University has to stick to the state curriculum (which is simply outdated) if it doesn't want to lose the license and funding from the state.

Appendix 2: Entry ratios and tuition fees in IKSUR

The following represents the entry ratios (number of applicants per one seat available in a program) at IKSUR in 2007 academic year for full-time programs (14 departments):

Program	Entry ratio
Finance and Investment	25,6
Management studies	19,64
Marketing	17,85
Logistics studies	13,0
IT	12,8
Advertisement	11,0
Public Relations	11,0
Social services and tourism	10,4
Documentation studies	9,8
Geo-ecology	8,8
Social services	8,5
Psychology	8,4
Journalism studies	8,2
Information and copyright	7,8
Support of information systems	6,7
Ocean studies	6,6
Medicine	6,0
Economics (BA)	5,9
Cultural studies	5,9
Translation studies (German language)	5,8
Applied math and IT	5,8
Telecommunications	5,8
Political studies	5,6
Bio-ecology	5,6
Tourism (BA)	5,4
Translation studies (English language)	5,3
Social work	5,1
Law	5,0
Special psychology	5,0
Radio-physics and electronics	4,4
Philosophy	4,1
Geography	3,87
Philology	3,8
Pedagogy (BA)	3,7
Physical training and sport	3,6
Linguistics and education (English language)	3,5
Physics	3,16

Biology	3,1
Math	3,0
Philology (Russian language and literature)	2,9
History	2,7
Translation studies (French language)	2,1
Chemistry	2,0
Linguistics and education (German language)	1,75
Physics and Math (BA)	1,3

The tuition fees for the first semester of 2008-2009 academic year in IKSUR (in rubles)

Program	The form of education			
	Full-time	Part-time	Distance	2 nd degree
Mathematics	22 000	18 000	-	-
Applied mathematics and IT	23 000	18 000	-	-
IT administration and math	25 000	-	-	-
IT security	26 000	-	-	-
Physics	23 000	-	-	-
Radio physics and electronics	25 000	19 000	-	-
Protection of information technology	27 000	-	-	-
Telecommunications (Ba)	24 000	-	-	-
Telecommunications (Ma)	28 000	-	-	-
Chemistry	22 000	-	-	-
Biology	22 000	18 000	-	-
Bio-ecology	23 000	-	15 000	-
Medicine	30 000	-	-	-
Medicine (college)	18 000	-	-	-
Nursing	15 000	-	-	-
Gynecology	15 000	-	-	-
Dentistry	24 000	-	-	-
Lab diagnostics	15 000	-	-	-
Pharmacy	19 000	-	-	-
Geography	24 000	-	-	-
Geography (Ba)	-	18 000	-	-
Geo-ecology	24 000	19 000	-	-
Oceanology	24 000	-	-	-
Philosophy	22 000	-	-	-
History	23 000	-	15 000	-
Culture studies	22 000	-	-	18 000

Political studies	25 000	-	-	-
Law	30 000	-	18 000	22 000
Linguistics. Russian language and literature	22 000	-	15 000	-
Linguistics. Polish language and literature	23 000	-	-	-
Journalism	30 000	-	18 000	-
Linguistics. English language and literature (Ba)	22 000	-	-	-
Public Relations	28 000	-	-	-
Scientific documentation	24 000	-	-	-
Advertising	27 000	-	-	-
Translation/interpretation	30 000	-	-	-
Linguistics. English language	28 000	-	-	-
Linguistics. German Language	27 000	-	-	-
Physical culture	22 000	-	16 000	-
Specialized psychology	25 000	-	17 000	20 000
Social work	22 000	-	15 000	-
Psychology	26 000	-	18 000	
Psychology (Ba)				18 000
Pedagogy. Elementary school	-	-	15 000	18 000
Pedagogy (Ba.)	21 000	-	14 000	18 000
Pedagogy (Ma)	28 000	-	-	-
Management	26 000	-	17 000	19 000
Management (Ma)	29 000	-	-	-
Financing and credit	31 000	-	18 000	20 000
Economics (Ba)	21 000	-	-	-
Economics (Ma)	30 000	-	-	-
Marketing	23 000	-	16 000	17 000
Social service and tourism	30 000	-	18 000	22 000
Tourism (Ba)	24 000	-	-	-
Logistics	30 000	-	18 000	22 000
Logistics and transportation security				
Service	26 000	-	17 000	20 000

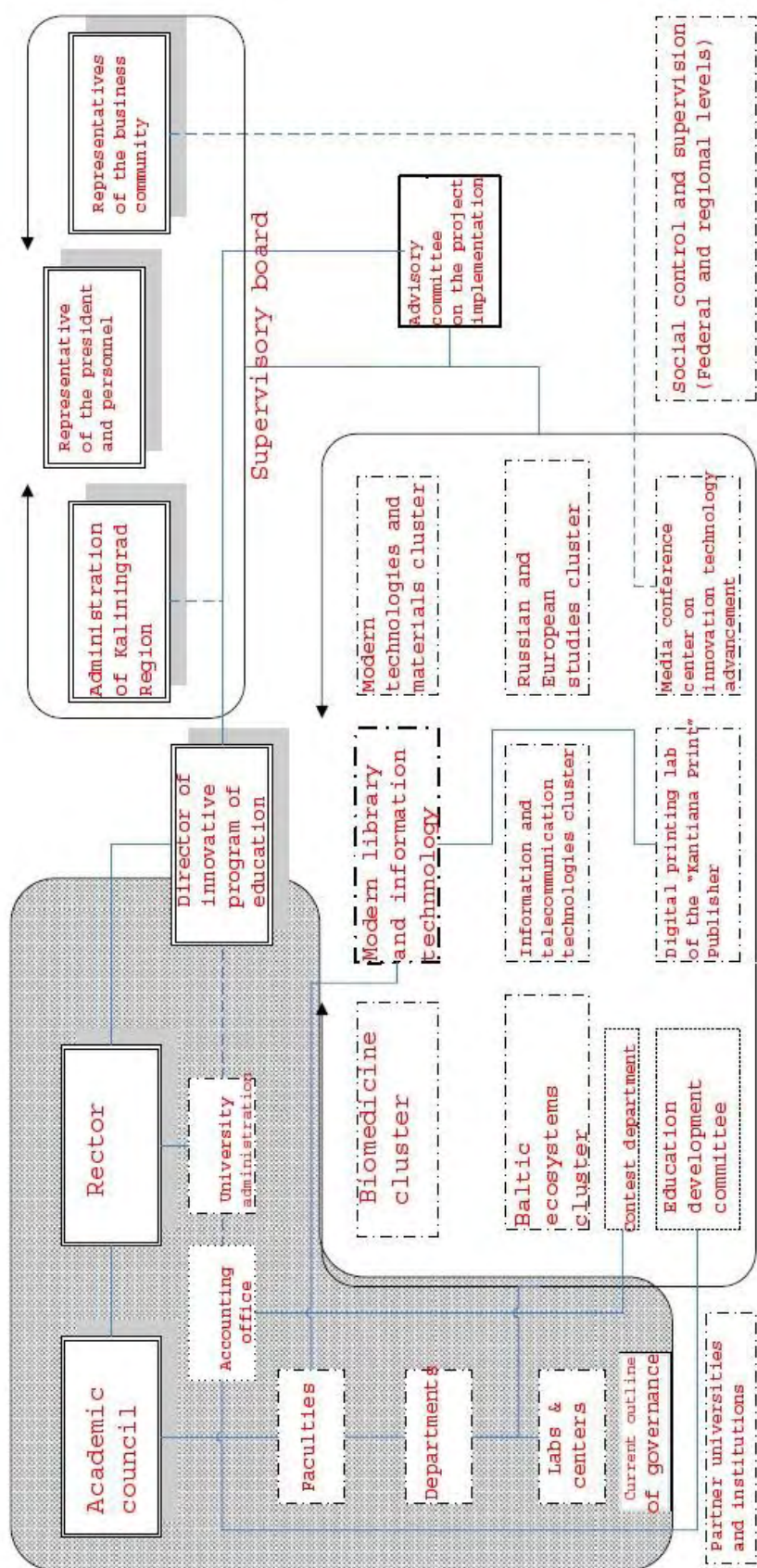
Appendix 3: IKSUR background

Immanuel Kant State University of Russia (IKSUR) began life as Kaliningrad State Pedagogical Institute (1948-1967) and was one of a few HEIs in the Kaliningrad region at that time. Later it became Kaliningrad State University and in 2005 the University was renamed after Immanuel Kant and attained federal status.

At the moment IKSUR is the leading educational, research and cultural centre in the Kaliningrad region. It maintains the traditional methods of the Russian state system of HE and at the same time adopts innovative and up-to-date approaches to research and teaching. IKSUR is a classical University, offering a diverse range of traditional disciplines. The University is constantly introducing new courses designed to meet the changing demands of the region. According to the University website, IKSUR consists of 12 faculties and has approximately 12800 students, engaged in undergraduate and postgraduate courses.

Apart from being the leading educational institution of the Kaliningrad region, IKSUR is also a large research centre. Research and education come hand in hand; the results of research are introduced into the educational programs. One of the University's strengths is its international cooperation, as foreign countries are much closer geographically, than the rest of Russia.

Immanuel Kant State University of Russia has a strong international profile. It is the centre of international co-operation in the region. Since 1992 the University has established partnership agreements with 31 institutions of HE from around the world. The main forms of international co-operation are in-service training of professors and lecturers, joint research, guest lectures, symposiums and scientific conferences, staff and student mobility.



Appendix 4:

National Priority Project implementation scheme at IKSUR

Appendix 5: International and national cooperation of IKSUR

Immanuel Kant State University of Russia has a strong international profile. It is the center of international co-operation in the region. IKSUR is a member of the European University Association, The Baltic Sea Region University Network (BSRUN), the Conference of Baltic University Rectors (CBUR), The Baltic University Programme Network (BUP), the Alliance of Universities for Democracy (AUDEM) and the Baltic Sea Virtual Campus. Since 1992 the University has established partnership agreements with 31 institutions of HE from Sweden, Finland, Norway, Denmark, Poland, Lithuania, Latvia, Germany, Austria, Luxembourg, France, Greece, USA and New Zealand. The main forms of international co-operation are in-service training of professors and lecturers, joint research, guest lectures, symposiums and scientific conferences, staff and student mobility.

One of the distinguishing features of IKSUR's international activities is its cooperation with a number of national and international foundations. Within the framework of this cooperation IKSUR is provided with up-to-date equipment and support for organizing student and staff exchanges as well as hosting international conferences. IKSUR is actively engaged in dialogue with the educational community in Europe and beyond, which helps it to maintain a strong position in the process of creating a common European educational area, in which Russia plays an indispensable role. The University can boast of a rich research potential and a flexible research organisation, active participation in international research collaboration and easy access to information. All these factors have enabled Kaliningrad University to become one of the leading Universities in Russia.

As a result of the international projects, run by IKSUR, several centers have been set up:

- The Internet Centre
- [The Kaliningrad Region Centre for the Baltic University Programme](#)
- [The European Documentation Centre \(EDC\)](#)
- The Human Rights Centre (Council of Europe)
- Agenda 21 Centre / Green Library (established under the TEMPUS project "Environment Education for Sustainable Development")

- The Swedish Language Resource Centre (with the assistance of the Swedish Institute)
- The English Language Resource Centre (established within the framework of the TEMPUS project "International Initiative aimed at the Modification and Restructuring of TEFL and Training EFL Teachers")
- The Lithuanian Language Resource Centre
- [The Baltic Centre for Advanced Studies and Education](#)
- The Centre for American Studies

Eurofaculty

In March 1993 at the Second Ministerial Session in Helsinki it was decided to establish the EuroFaculty. The initiative came from Mr. Uffe Ellemann-Jensen and Mr. Hans-Dietrich Genscher, then Foreign Ministers of Denmark and Germany, respectively. The EuroFaculty statutes were adopted at the Third Ministerial Session in Tallinn in May 1994. The aim of the EuroFaculty project is to assist in reforming HE of law, economics, public administration and business administration at the leading Universities in the eastern part of the Baltic Sea region.

The long-term policy goals serving to achieve the EuroFaculty aims were expressed in a Strategy Paper adopted by the Steering Committee in 1995. They are:

- Introduction of a core curriculum in each field up to the level of a Master's degree in accordance with the academic standards of the supporting Universities.
- Training of local academic staff to ensure that the host Universities have the means to sustain a new curriculum.
- Development of libraries and computer networks in support of teaching and research at the Baltic Universities.
- Funding of the work of the EuroFaculty is provided by the Danish, German, Finnish, Norwegian, United Kingdom, Swedish, Polish, Latvian, Lithuanian and Estonian governments on a voluntary basis and was supported by the European Union from the PHARE and Tempus programmes.

Research Centres and Labs at Immanuel Kant State University of Russia established in cooperation with other institutions:

[Baltic Centre for Advanced Studies and Education \(BaltCASE\) >>](#)

Institute of New Education Technologies

Institute of Information Technologies

[The European Documentation Centre \(EDC\) >>](#)

The Kaliningrad Region Centre for the Baltic University Programme

Centre of Business Education

Centre of Russian Culture in the South-Eastern Baltic

The Human Rights Centre (Council of Europe) at the Faculty of Law

Baltic Centre for Advanced Studies and Education (BaltCASE) established in 2001 is financed by the Carnegie Corporation of New York (USA), John D. and Catherine T. MacArthur Foundation (USA) and the Ministry of Education of the Russian Federation. The main goal is to create an interdisciplinary professional group of Russian scholars and researchers, carrying out research in the field of international relations between Europe and Russia. The special attention is paid to: (1) the evaluation and introduction of new curricula and curricula modules in Russian-European Studies; (2) the development of regular and growing co-operation between the institutions of HE and federal/local ones. Project is coordinated and implemented by IKSUR.

In May 2004 – June 2005 the project “Landscape Programme of Kaliningrad region” financed by DBU foundation (Germany) was implemented at Immanuel Kant State University of Russia. The project activities included elaboration of the landscape program of Kaliningrad region for environmentally oriented land use; zoning of territories; identification of environmental conflicts and actors of these conflicts; elaboration of proposals on minimization of environmental impact etc. The DBU project “Landscape planning in Kaliningrad region (Zelenogradsk and its surroundings)” is started in 2006 as continuation of the project “Landscape Program of Kaliningrad region”.

IKSUR actively participates in realization of projects financed by the European Union within the Tacis Program. In 1997-1999 the University took part in implementation of the PROMETEE II project “Tacis Support for a Global Development Plan for Kaliningrad Oblast” in collaboration with the Institute of Transition Economy (Moscow), University Pierre Mendes France (Grenoble, France) and Birmingham University (Great Britain). This research and policy advice project elaborated a regional diagnosis and long-term development concept for the regional administration. The experts representing the I. Kant State University of Russia took an active part in realization of the Tacis CBC project “Seagull RC- Russian component of the development strategy for Euroregion Baltic” (2002-2005).

IKSUR is the partner of the Interreg III B BSR project “City-hinterland cooperation as motor for regional development in the SE-Baltic” (the Lead partner is the Ministry for Labour, Building and Regional Development Mecklenburg-Vorpommern, Germany, the activities on the Russian territory will be financed by Tacis). IKSUR also participates in East-West project (East-West Transnational Transport Corridor in the S-BSR) and Lagomar project (Natural and cultural heritage in the southern Baltic Sea - challenges and perspectives for regional development) financed by Interreg III B BSR program.

Major areas of academic work at Immanuel Kant State University of Russia can be found at:

http://www.unir.albertina.ru/research_areas.html

Research Centres and Labs at Immanuel Kant State University of Russia can be found at:

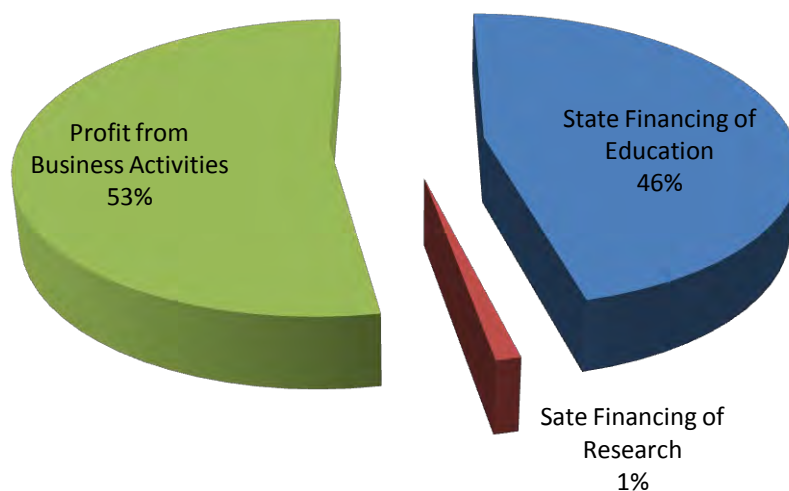
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Partner Universities of Immanuel Kant State University of Russia

<http://intdep.albertina.ru/index4.html>

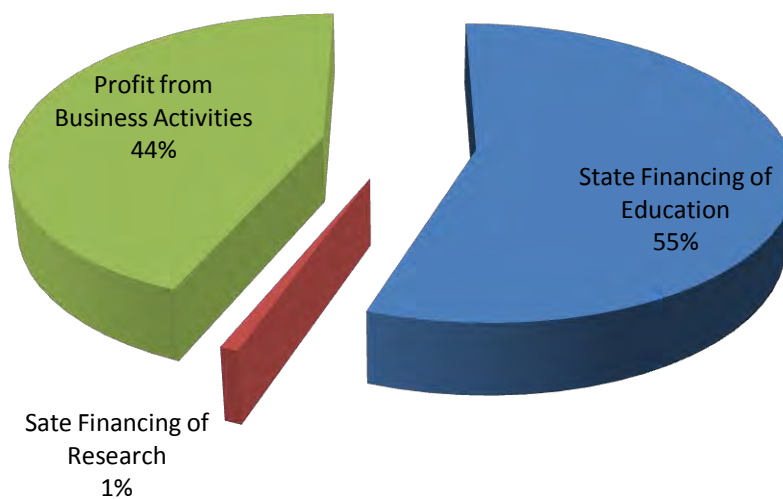
Appendix 6: Component percentage and Ratio analyses

2004 Financing

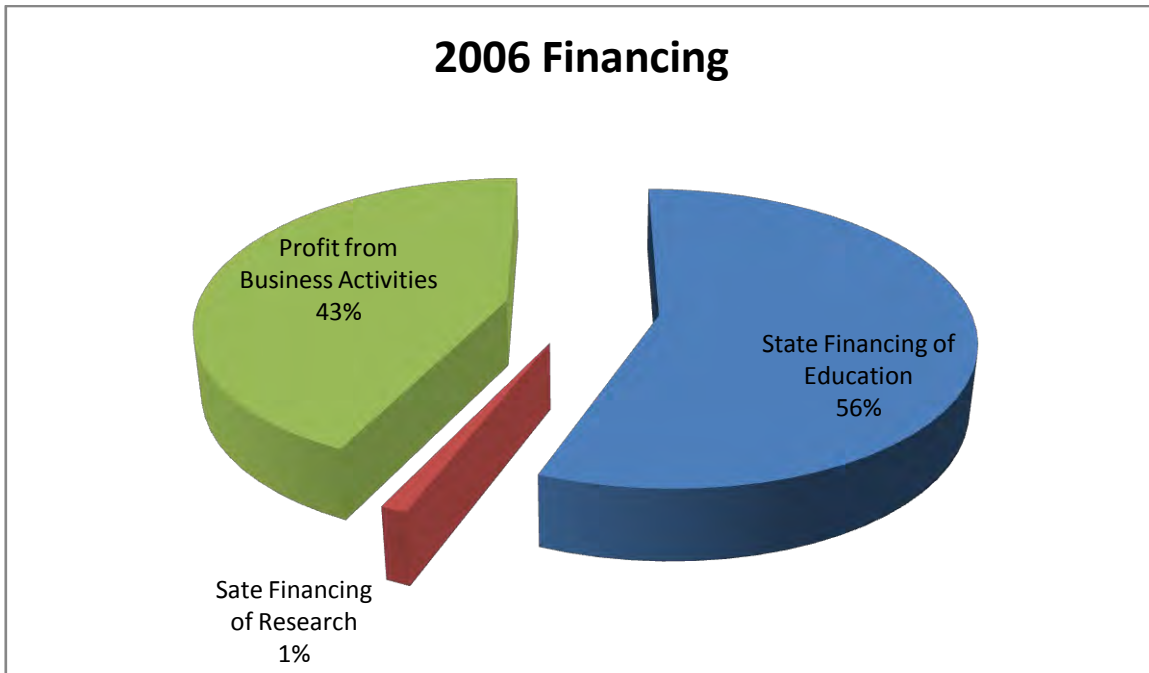


IKSUR financing in 2004

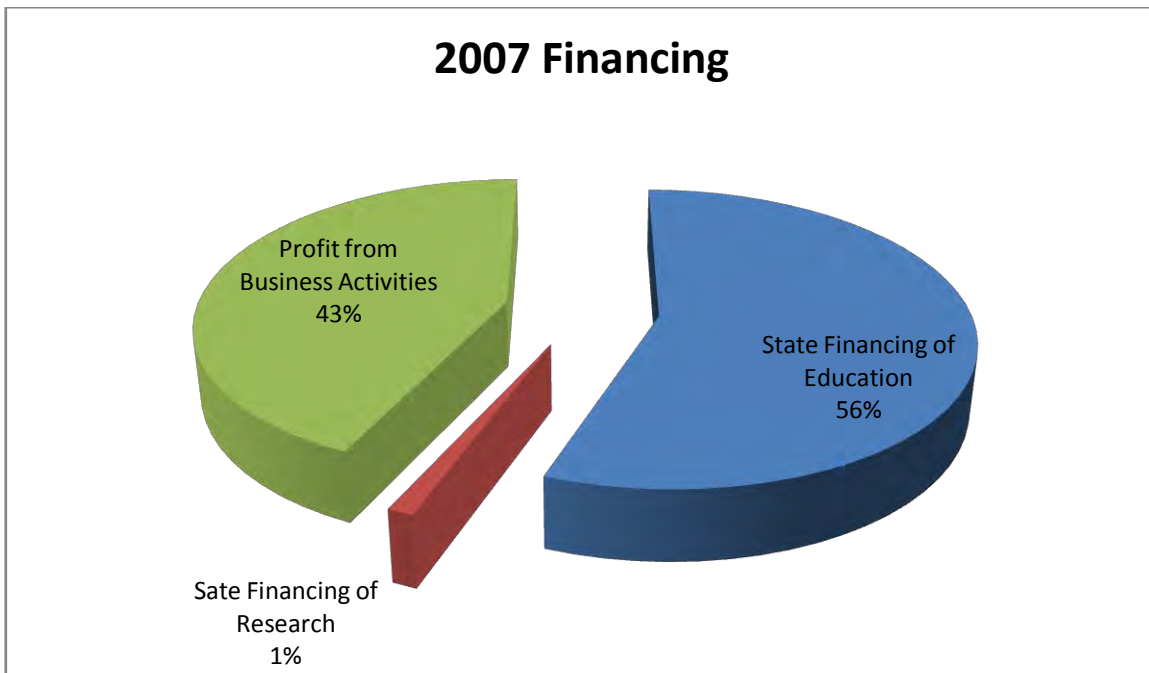
2005 Financing



IKSUR financing in 2005



IKSUR financing in 2006



IKSUR financing in 2007

1. Ratio analysis

Financial ratio analysis involves calculation and comparison of ratios which are derived from the information presented in the University financial statements, bits and pieces of which can be constructed by means of the official reports data. The budgeted trends of these ratios can be used to make inferences about the financial condition of the University, its operations and its investment attractiveness in the future. Unfortunately, due to the fact that there are no financial data that is necessary to do even a basic ratio analysis, we can only illustrate the most common ratios that would be used by the Universities management, as well as banks and other investing organizations.

Working capital⁵⁸: Bankers and other short-term creditors have the current position of the institution as their primary interest. They are concerned about the University's ability to generate sufficient funds (working capital) to meet current operating needs and to pay current debts promptly. Thus the analysis of financial statements by a banker considering a short-time loan is likely to centre on the working capital position of the University.

Current Ratio⁵⁹: This ratio measures the liquidity of the current assets and the ability of a company to meet its short-term debt obligation.

Debt Ratio⁶⁰: A debt ratio is a basic measure of the safety of creditors' claims. It is not a measure of short-time liquidity; rather it measures creditors' long-term risk. Debt ratios also show the proportion of total assets financed by creditors, as distinguished from stockholders.

⁵⁸ Total Current Assets - Total Current Liabilities = Working Capital

⁵⁹ Total Current Assets / Total Current Liabilities = Current Ratio

⁶⁰ Total Liabilities / Total Assets = Debt Ratio

Appendix 7: Strategic planning, implementation and assessment

